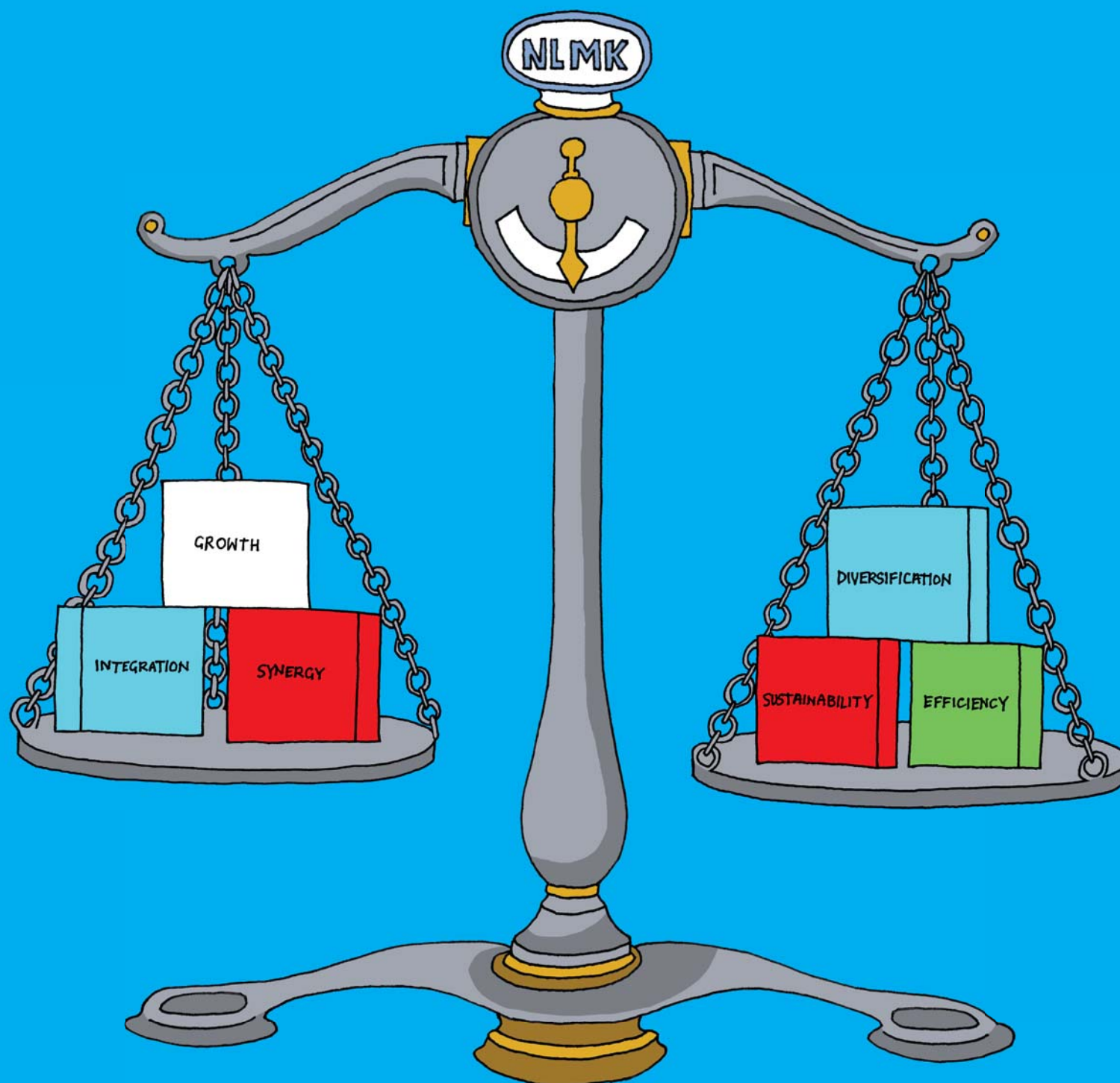


Pursuing sustainable growth





NLMK Group is a leading international steel company with a vertically integrated business model.

Stages of production that are more raw material and resource intensive are concentrated in cost-efficient regions. This has enabled the Group to attain and then to retain its position as one of the lowest-cost producers in the world. Finished products are produced close to our main customers in Russia, North America, and the EU.

NLMK is one of the most efficient and profitable steelmakers in the world thanks to our self-sufficiency in key raw materials and energy, coupled with the technological superiority of our production capacity. We offer our customers a diverse mix of high-quality products, ensuring our leading position in local markets and sales effectiveness. Thanks to our flexible production chain, balanced product

mix, efficient sales system, and widespread customer base, we are able to react quickly to changing market conditions.

After completing a phase of expansion, the Group is now focused on increasing production efficiency, improving the quality of production, and strengthening our position on the markets.

Our Mission

Our mission is to increase the Group's long-term value through adopting and continuously improving a sustainable management and operational business model.



You will find navigational aids throughout this report that will guide you to further information:



Links to pages in the Annual Report



Links to further content online



Links to related video material online



Links to other corporate documents



KPIs

NLMK shares are quoted on the Russian trading platforms MICEX and RTS of the Moscow Exchange, and as Global Depositary Shares (GDS) on the London Stock Exchange (LSE).

NLMK ticker codes

Reuters

NLMKq.L (LSE), NLMK.RTS (RTS), NLMK.MM (MICEX)

Bloomberg

NLMK LI (LSE), NLMK RU (RTS), NLMK RM (MICEX)

Indices which include NLMK shares (as at March 2013)

Moscow Exchange (RTS-MICEX)
(NLMK's share = 1.02%)

Moscow Exchange (RTS-MICEX) Metals and Mining Sector (NLMK's share = 15%)

Credit ratings

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

We have transformed into a leader in both performance and culture

In 2012, NLMK Group produced 15 mt of steel, becoming the leader in steel output in Russia. The following competitive advantages are the driving force behind our success:

We are balanced

NLMK Group's business model is based on a balance in our production chain, product portfolio, and sales markets.

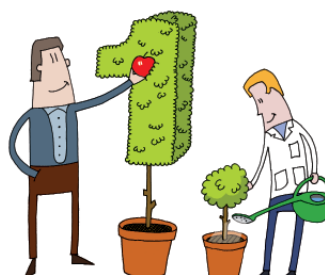
Page 02



We are growing

NLMK's balanced growth strategy is based upon the development of low-cost upstream and midstream facilities, coupled with downstream assets located close to the end-users.

Page 18



We are efficient and sustainable

Efficiency and safety have always been at the heart of our business.

Page 56



We are professionals

NLMK is led by a team of professionals who have extensive experience in managing the Group in times of difficult market conditions and who are capable of strengthening its position within the industry.

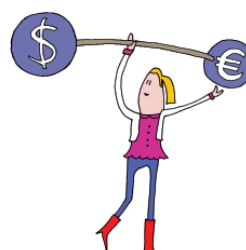
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We are strong

As one of the most efficient steel producers in the world, NLMK consistently achieves excellent financial results.

Page 120



We are diversified

The diversification of the Group's product portfolio and its sales markets enables us to react flexibly to changes in the markets and to weather industry cycles.

Page 148



Inside this report

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Performance review

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Section I: Understanding NLMK

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We are Balanced

NLMK Group's business model is based on a balance in our production chain, product portfolio, and sales markets. We continuously focus on all of the components of our business by investing in the development of assets, by expanding our product line and by improving product quality.

- Efficient vertical integration of raw material assets and an increase in our level of energy self-sufficiency allow us to control production costs and to reduce the risks created by volatile raw material prices.
- We are supplementing low-cost midstream operations in Russia that are sufficient in raw materials with the development of our overseas rolling assets located close to our extensive client base, which has very exacting requirements in terms of quality and lead times.
- The Group employs a balanced model of steel production that ensures flexibility in response to changes in demand.
- Our sales portfolio for most products is balanced between developing and mature markets, which helps to ensure solid sales performance.
- Our broad product portfolio includes both ordinary and niche products and this allows us to react flexibly to changing market conditions.

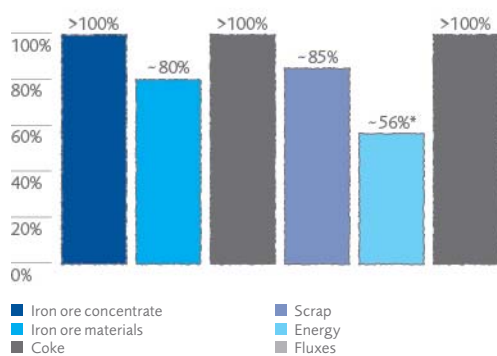


For more information on our business model

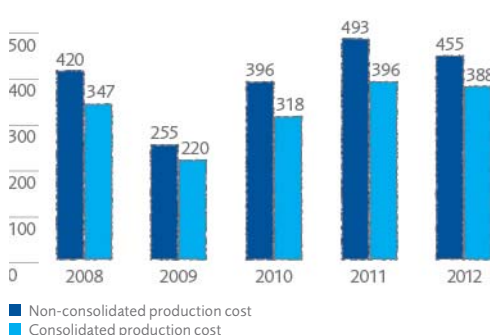


For more information on our product portfolio

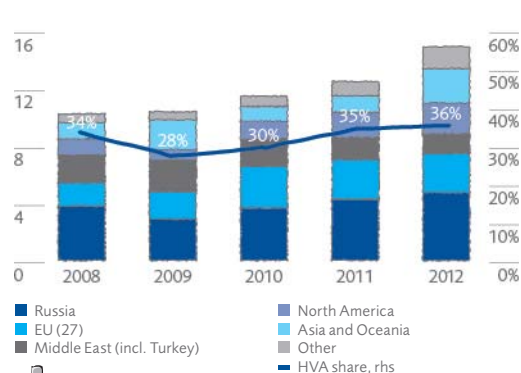
Raw materials and energy self-sufficiency in 2012

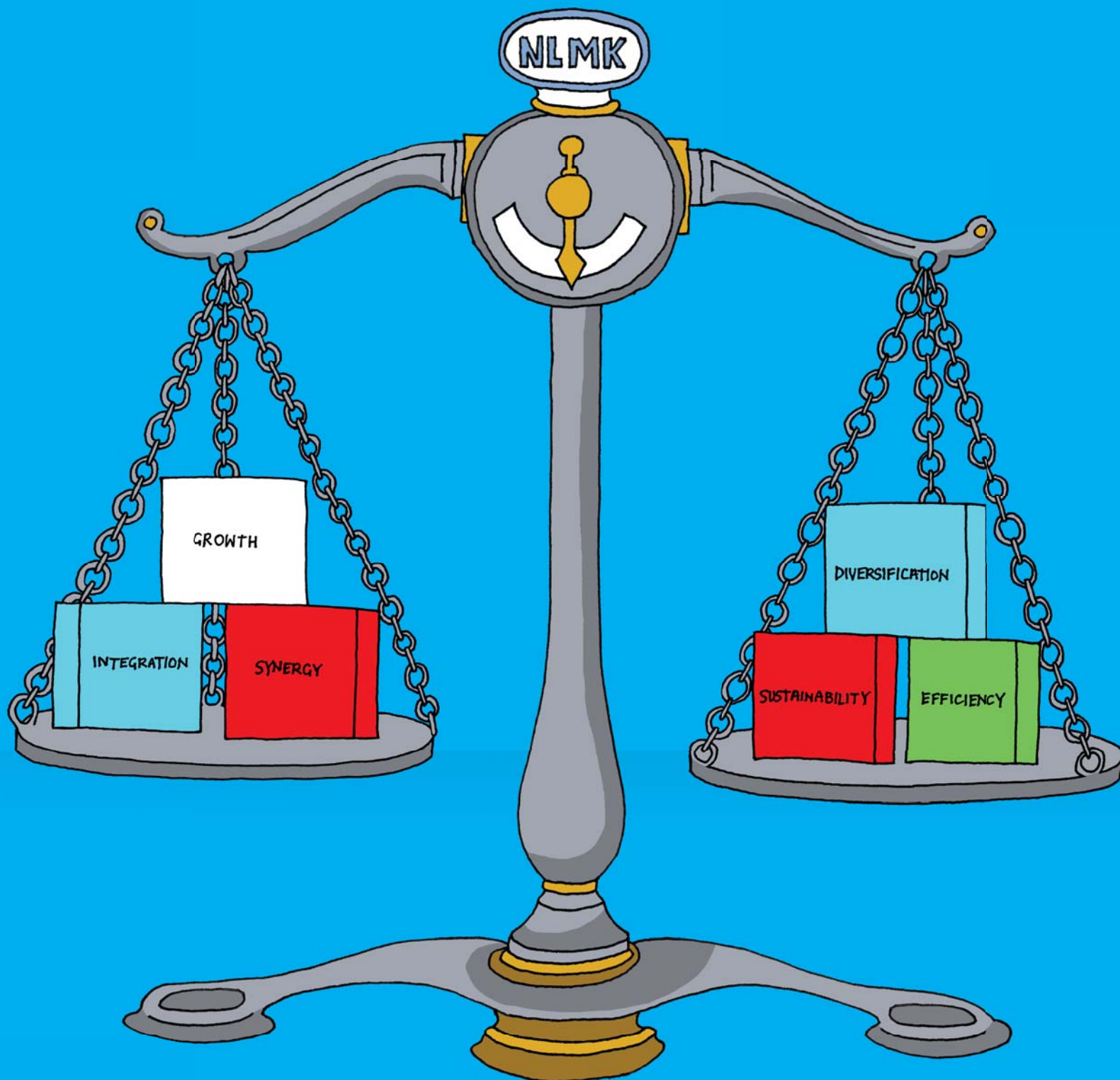


Vertical integration steel cash cost reduction effect (US\$/t)



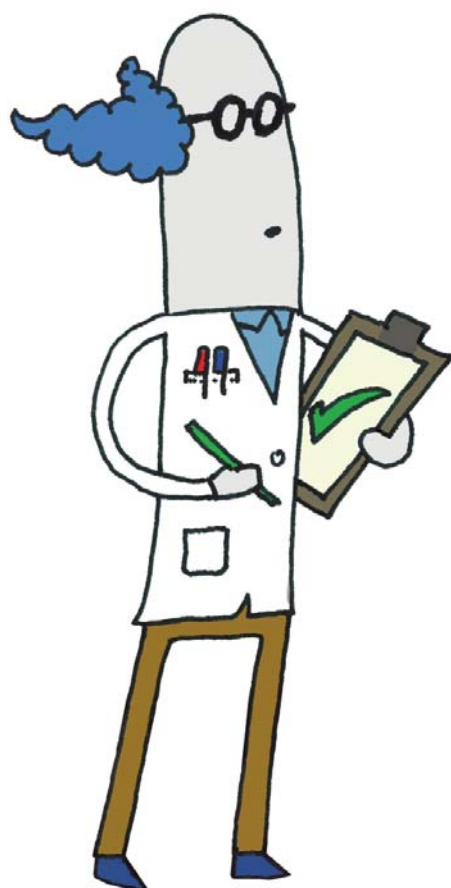
Group sales by region (mt)





Continuous growth

In a challenging year, NLMK delivered a robust financial performance and significantly grew its steel product output and sales, driven by an efficient business model and a better product mix. Our financial standing remains one of the most sustainable among steelmaking companies.



Strong financial performance and increased sales



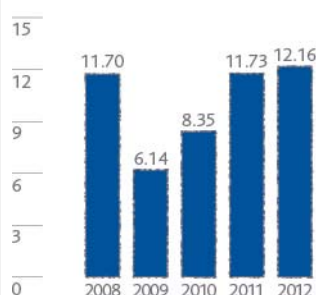
For more information on our financial performance

- Consolidated revenue: US\$ 12.2 bn (+4%)
- Operating cash flow: US\$ 1.82 bn (+1%)
- Net debt/EBITDA: 1.88 – one of the lowest across the sector
- Steel product sales: 15.2 mt (+18%)
- HVA sales: 5.4 mt (+20%)
- Share of HVA products in total sales: 36% (+1 p.p.)

Sales revenue (US\$ bn)

12.16

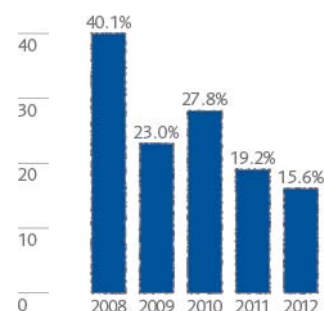
+4%



EBITDA margin

15.6%

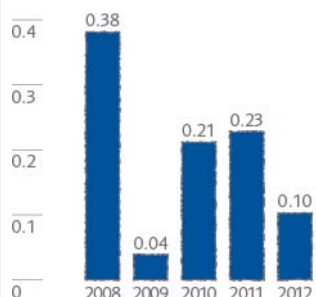
-3.6p.p



Net income per share (US\$)

0.10

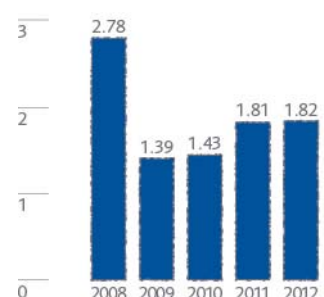
-56%



Cash flow from operations (US\$ bn)

1.82

+1%

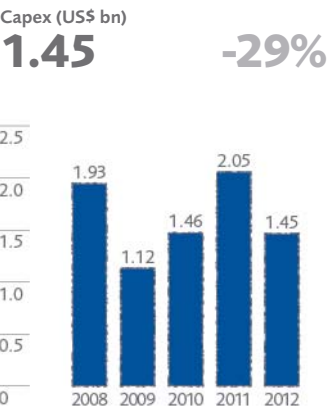
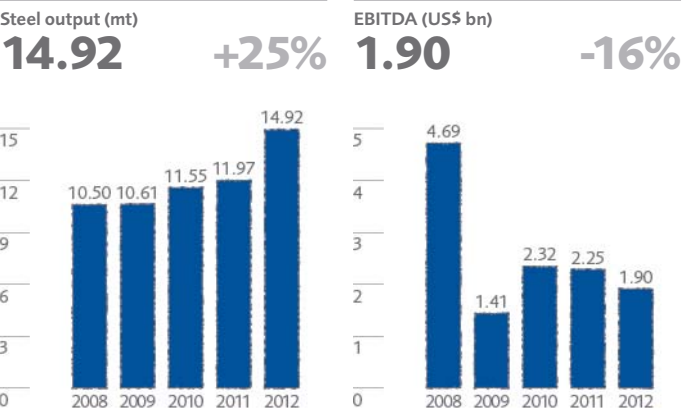


Resilient growth prompted by sustainable and efficient business model



For more information on our operating performance

- Slab cash cost: US\$ 388/t (-2%)
- Steel output: ~15 mt (+25%)
- Finished product output: 15.2 mt (+17%)
- HVA product output: 5.5 mt (+20%)
- Capacity utilization rate: 96%*



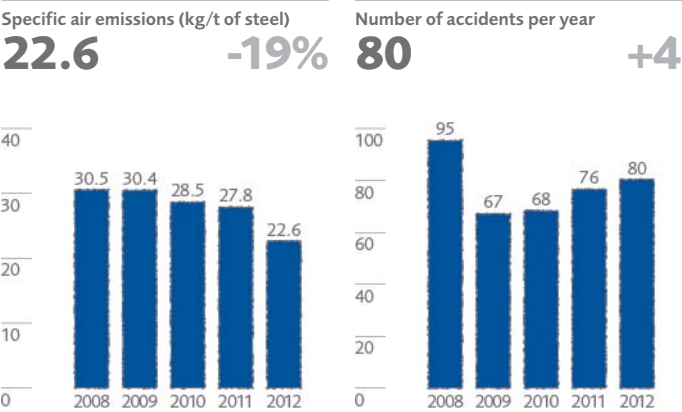
* Data for NLMK Russia

Sustainable development



For more information on our corporate responsibility achievements

- Air emissions: 22.6 kg/t (-19%)
- Environmental capex: US\$ 77 m
- Specific energy intensity of steel production: 5.74 Gcal/t (-6%)
- Process off-gas utilization rate: 90%
- Labour efficiency: 239 t/person (+20%)



For more information on our KPIs

Our milestones

NLMK, since its inception in 1931, has made innovation and development its key strategy. In order to achieve the highest levels of efficiency of production of its high quality steels, NLMK has controlled and optimized its key resources, focused on innovation and stressed the need for high levels of safety and social responsibility to its employees and to the areas where it operates. In 2012, NLMK became Russia's #1 steelmaker in terms of steel output and was the first Russian steelmaker to have its energy resource management system certified for compliance with the requirements of international standard ISO 50001:2011. As a result of this approach, NLMK is now recognised as one of the world's most competitive steelmakers.

NLMK group steel production (mt)

1992

7.2 mt

State enterprise NLMK is transformed into an open joint stock company.

1997

7.4 mt

Dolomit, a mining company and processor of metallurgical dolomite, is acquired.

100% self-sufficiency in dolomite.



1999

7.5 mt

Stagdok, a mining company and processor of fluxing limestone, is acquired.

100% self-sufficiency in limestone.



2003

8.9 mt

NLMK's energy capacities are upgraded.

Increase in energy self-sufficiency to 40%.



2004

9.1 mt

NLMK acquires Stoilensky, the third largest iron ore producer in Russia.

100% self-sufficiency in iron ore concentrate and sinter ore.



2005

8.5 mt

NLMK acquires a licence to develop the Zhernovskoye – 1 coking coal deposit (Kemerovo region).

Potential for increased self-sufficiency in coking coal.



See our interactive version of the timeline at www.ara2012.NLMK.com/keymilestones



For more information on our future development plans and key investment projects

* NLMK DanSteel starting from 2 August 2011

** NLMK Indiana starting from 27 July 2010

2006

9.1 mt

NLMK acquires DanSteel*, a Danish steel rolling company with a capacity of 500,000 t/y.

The bulk of NLMK DanSteel slab needs are provided by NLMK.

NLMK acquires VIZ-Steel, the second largest Russian electrical steel producer with a capacity of 200,000 t/y.

100% of VIZ-Steel semi-finished product needs are provided by NLMK.

NLMK grows its share in the domestic and international electrical steel markets.

Coke producer Altai-Koks is acquired.

Over 100% self-sufficiency in coke.

NLMK and the Duferco Group create a JV that consists of 1 steelmaking and 5 rolling mill companies and a network of steel service centres in Europe and the USA.

Further geographic diversification, moving closer to end customers.

Product mix diversification with an expanded value added share.

2007

9.2 mt

NLMK/Duferco JV acquires Sharon Coating (formerly Winner Steel), an American rolled steel manufacturer.

Further product and geographic diversification.

NLMK acquires 50% plus one share in Maxi-Group.

Diversification into long products and metalware, and higher self-sufficiency in scrap in the domestic market.



2008

10.5 mt

NLMK acquires international trading companies: Novexco (Cyprus) and Novex Trading (Switzerland).

Helps develop an effective sales system, optimize commodity flows, and further enhance presence in the core export markets.

NLMK acquires Beta Steel, a US-based steel and rolled product manufacturer.**

Diversification into hot-rolled coils in the USA.



2010

11.5 mt

NLMK acquires VMI Recycling Group, a Russian company specializing in scrap collection and processing.

Increase in scrap self-sufficiency to 80%.



2011

12.0 mt

NLMK acquires Steel Invest and Finance rolling assets, formerly part of the NLMK-Duferco JV.

NLMK grows HVA production capacities in the traditional sales markets and enhances direct access to the EU/USA customer base.

NLMK balances expanding low-cost steel production in Russia with the downstream operations close to end users.

NLMK acquires National Laminations, a service centre in India specializing in transformer steel processing and distribution.

Enhances NLMK's position in the Indian market.

NLMK wins the right to explore and develop the Zhernovski Gluboki site (Kemerovo region) and Usinsky-3 (north of the Komi Republic).

Provides an option to get integration into the production of high-quality coking coal to cover a substantial part of NLMK's coal needs.

2012

14.9 mt

+25% y-o-y

NLMK Group becomes Russia's #1 steelmaker in terms of steel output – NLMK's assets produced approximately 20% of all steel in Russia.

Expanded steel output in a cost-efficient location.

NLMK DanSteel completes the revamping of its rolling mill, designed for plates of 5-200 mm in thickness and widths up to 4,000 mm.

Strengthened positions in the plate markets, including such new high growth markets as off-shore drilling platform manufacture and the off-shore wind sector.

NLMK is ranked second among World's 35 Most Competitive Steelmakers - World Steel Dynamics

Analysts highlighted NLMK's competitive advantages, such as low production costs, self-sufficiency in raw materials, strong financial performance, proximity to key sales markets, and pricing policy, as well as the company's activities in the areas of social and environmental responsibility and workers' safety.

NLMK became the first Russian steelmaker to have its energy resource management system certified for compliance with the requirements of international standard ISO 50001:2011.

International auditors recognize NLMK's efforts to introduce Best Available Technologies (BATs) aimed at optimizing energy consumption and enhancing the sustainable use of natural resources, and, as a result, to reduce the Company's environmental footprint.



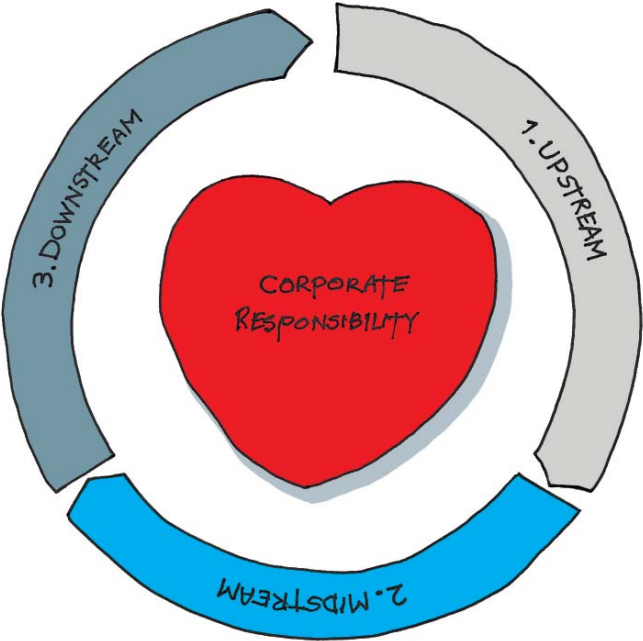
Flexible business model provides sustainable performance


NLMK is a vertically integrated group with a well-balanced value chain, providing control over every stage of steel production, from the mining of raw materials to the sale of high-technology finished products to end users. At all stages of this process, we adhere to our commitment to corporate responsibility, seeking to ensure the well-being of our staff, the local communities and the environment.

Sustainable development

Corporate responsibility is centre stage in our business model, being an integral element of each link in the value chain. NLMK encourages high standards of social welfare and environmental protection and prevents violations of human rights in the regions in which it operates.

Our corporate responsibility policy is geared to achieving sustainable development objectives that are aligned with the long-term economic interests of the Group. We strive to protect our employees, through improving their standard of living, and providing safe, secure working conditions. We care about ecology and minimize our impact on the environment. We create a positive social environment in the regions where we operate and support our local communities.



 For more information on our corporate responsibility projects

Our vertically integrated business model

NLMK has created a unique business model: steel production (the most material- and resource-intensive part of the metallurgical process) is concentrated in low-cost regions, while finished products are produced much closer to the Group's client base. This allows NLMK to minimize expenditure on production and logistics while, at the same time, swiftly and flexibly adapting to the changing requirements of our end users. Vertical integration and effective oversight of production costs means that NLMK is one of the world's lowest-cost producers of high-quality steel products.

The key stages of our production chain are:

1. Upstream

Our Russian assets fully supply the Group's requirements for iron ore concentrate, sinter ore, and coke, and the majority of our scrap and energy needs. NLMK manages one of the most efficient iron ore manufacturers in the world, situated close to the Group's main steel production facility, and with a reserve of around five billion tonnes.

2. Midstream

NLMK has a flexible production chain. Approximately 20% of our steel is produced using Electric Arc Furnace (EAF-based) technology and 80% is manufactured using Basic Oxygen Furnaces (BOF) at one of the most economically run companies in the world: our site at Lipetsk. About 90% of our steelmaking capacity is located in Russia, next to our main sources of raw materials and close to key end users of our products.

3. Downstream

Production and sale of our wide range of finished products is split evenly between developing and mature markets, thereby ensuring both growth and stability. A substantial part of finished product manufacturing is carried out by NLMK rolling mills close to our wide client base, which has strict requirements in terms of product quality and lead times.

1. Upstream

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

Iron ore

Iron ore concentrate and sinter ore are the key input materials in pig iron and BOF steel production.

Advantages

Stoilensky supplies all of the Group's requirements for iron ore concentrate and sinter ore and, when our Pelletizing Plant is completed, it will cover all NLMK's needs for iron ore, including iron ore pellets. In addition, its ferruginous sludge (waste) utilization technology will allow us to further reduce our consumption of iron ore.

Coke and coking coal

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

Advantages

Altai-Koks and the coke batteries at Novolipetsk supply more than 100% of the Group's requirements for coke, which is used in the blast furnaces to produce pig iron. In future, the introduction of new

technologies will bring down the costs connected with the acquisition of coking coal. The introduction of Pulverized Coal Injection technology (PCI) will partially supplant expensive coke and natural gas with a far more cost-effective alternative, while the use of tar pitch will further reduce the use of coke. In addition, NLMK has licences to develop two coalfields (Zhernovskoye-1 and Zhernovski Gluboki, and Usinsky-3).

Scrap

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

Advantages

Scrap processing businesses within the NLMK Group provide about 85% of the ferrous scrap required by our Russian steelmaking plants. To supply the increased demand for scrap (taking into account that NLMK Kaluga will come online in 2013), the Group will continue to develop its scrap processing division.

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

Fluxes

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

Advantages

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

Energy

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

Advantages

NLMK has generating plants run mainly on process off-gases from coke and blast furnace operations. In 2012, Novolipetsk was 53% energy self-sufficient, while at Altai-Koks, enough energy is generated to meet all of the company's requirements with the excess being sold to third-party consumers.



100%

self-sufficiency in iron ore concentrate and sinter ore

Over

100%

self-sufficiency in flux

85%

self-sufficiency in scrap

Over

100%

self-sufficiency in coke

53%

self-sufficiency in energy

2. Midstream

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



For more information on our projects to improve cost-effectiveness

Process

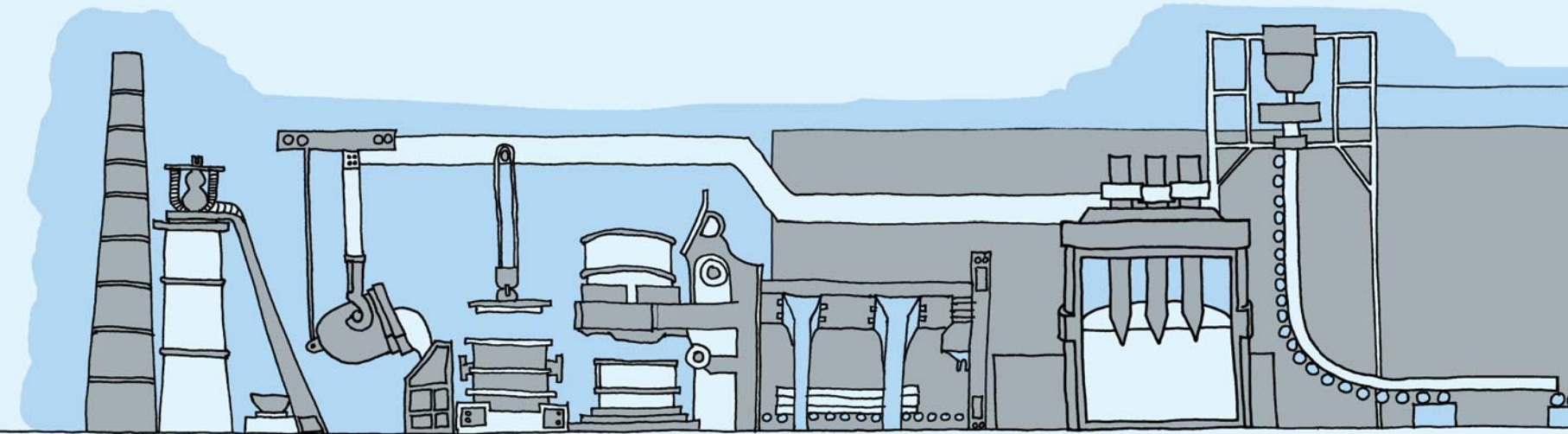
The Group's steelmaking operations are well-balanced, using different methods: the Basic Oxygen Furnace (BOF) route, representing over 80% (at the low-cost Novolipetsk site), is complemented by Electric Arc Furnace (EAF) production, representing around 20% (at NLMK Russia Long, NLMK Europe Plate, and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

Advantages

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

This competitive advantage has allowed the Group to further expand its low-cost production base in Russia: in 2011, we commissioned a new Blast Furnace and a new Basic Oxygen Furnace, increasing our steelmaking capacity by 36%. In 2013, we are planning to complete the construction of the NLMK Kaluga mini mill. The site will have an EAF with a capacity of 1.5 m t/y of steel.

"We manufacture steel close to our raw material production sites."



US\$ 388/t
slab production cost

Over
15 mt/y
steel production capacity

80%/20%
BOF/EAF model



For more information on our projects to develop promising segments and to maintain efficient and sustainable growth

3. Downstream

The process of creating rolled steel, ready for sale.

Process

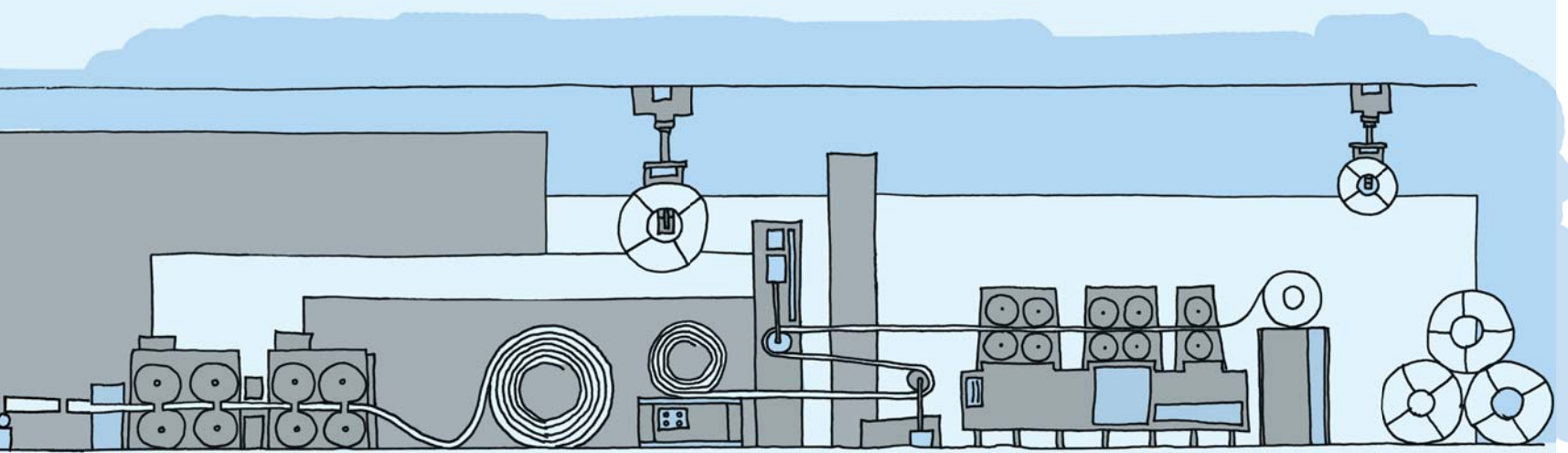
NLMK's steel processing plants are diversified both geographically and in terms of the products they manufacture. Our rolling facilities are located in Russia, Europe, and the USA.

Advantages

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

Having set up an efficient production flow and flexible sales strategy, NLMK can adjust its production programme according to the demands of the market. When demand shrinks for high value added (HVA) products, NLMK can switch to standard steel production with practically no change in utilization rates at its core assets and to direct sales to more profitable markets. When demand recovers, the Company increases its HVA product output and reduces the production of ordinary grades.

"We roll steel close to our main customers."



Over
14 mt/y
total rolling capacity

Over
90%
of steel produced can be processed at our own rolling mills in Russia and abroad

36%
HVA share in finished product output

80%
of rolled steel is sold close to where it is produced

Balanced Group structure

Our vertically integrated operations are organized into three clear geographical operating divisions and span virtually all of the steelmaking value chain, from mining to processing steel into finished products. Service centres and trading companies ensure uninterrupted just-in-time deliveries and a high level of customer service in over 70 countries around the world.



NLMK Russia

The Group's key business segment comprising mining, coke chemical, steel producing and rolling assets. Over 90% of steelmaking assets are located in Russia. They account for about 60% of flat steel products and 100% of long products. NLMK Russia comprises three business units – NLMK Russia Flat, NLMK Russia Long and NLMK Russia Raw Materials.

Core businesses

NLMK Russia Flat:			NLMK Russia Long:			NLMK Russia Raw Materials:		
– Novolipetsk	– VIZ-Steel		– NSMMZ	– UZPS	– NLMK Kaluga (under construction)	– Stoilensky	– Altai-Koks	– Stagdok
						– Dolomit	– Vtorchermet	NLMK

Products

– Slabs	– Billets	– Sinter ore
– Hot-rolled steel	– Rebar	– Coke
– Cold-rolled steel	– Wire rod	– Limestone
– Galvanised steel	– Metalware	– Dolomite
– Pre-painted steel	– Iron ore concentrate	– Scrap
– Electrical steel		
– Transformer and Dynamo steel		

Sales markets

Global market:	Russian market:
– 16% of the global slab market	– Cold-rolled steel: 24%
	– Pre-painted steel: 22%
	– Galvanised steel: 17%
	– Rebar: 17%
	– Coke: 8%
	– 23% of Russian iron ore concentrate production

16%

2012 production highlights

- 14.0 mt of crude steel (+25% y-o-y)
- 5.1 mt of flat steel (+7% y-o-y)
- 1.7 mt of long steel and metalware (+13% y-o-y)
- 7.1 mt of coke, 6% moisture (+8% y-o-y)
- 15.6 mt of iron ore (+4% y-o-y)
- 2.1 mt of dolomite (-2% y-o-y)
- 3.6 mt of limestone (+10% y-o-y)
- 2.1 mt of scrap processed (-1% y-o-y)

Employees

~53,900



For more information on NLMK Russia operating performance

NLMK Europe

NLMK Europe produces a wide range of HVA flats. NLMK's industrial model is unique for Europe and is based on the efficient supply of semi-finished products (slabs) from Russia to flexible high-quality European processing facilities close to key customers. NLMK Europe includes two business units, NLMK Europe Strip and NLMK Europe Plate.

Core businesses

- | | |
|------------------------------|---------------------------|
| NLMK Europe Strip: | NLMK Europe Plate: |
| – NLMK La Louvière (Belgium) | – NLMK DanSteel (Denmark) |
| – NLMK Coating (France) | – NLMK Clabecq (Belgium) |
| – NLMK Strasbourg (France) | – NLMK Verona (Italy) |

Products

- Hot-rolled steel
- Cold-rolled steel
- Galvanized steel
- Pre-painted steel
- Thick plates, including quenched and tempered

Sales markets

- EU market:
- **3%** of the EU strip market
 - **6%** of the EU plate market

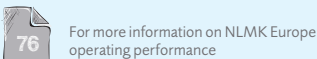
6%

2012 production highlights

- **0.2** mt of steel (**-23%** y-o-y)
- **2.1** mt of flat steel (**-13%** y-o-y)

Employees

~2,900



NLMK USA

NLMK USA comprises three flat steel producing assets. The Division has an electric arc furnace (EAF), hot-rolling facilities, and a common distribution structure.

Core businesses

- NLMK Indiana (Portage, IN)
- Sharon Coating (Sharon, PA)
- NLMK Pennsylvania (Farrell, PA)

Products

- Slabs
- Hot-rolled steel
- Cold-rolled steel
- Galvanized steel

Sales markets

- US market:
- **3%** of the US flat steel market

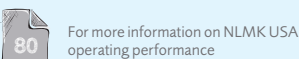
3%

2012 production highlights

- **0.7** mt of steel (**+19%** y-o-y)
- **1.8** mt of flat steel (**+5%** y-o-y)

Employees

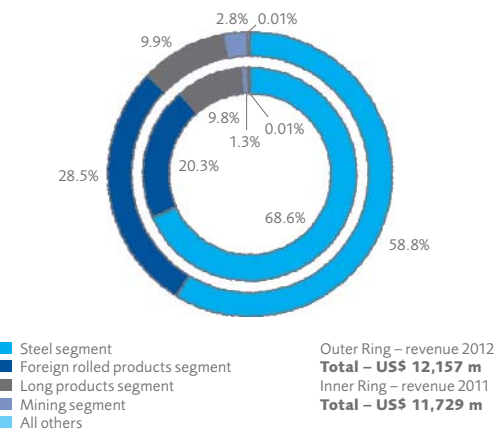
~1,100



Our supporting services

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

Revenue by segment in 2011-2012



The Group's financial reporting is done by 5 segments:

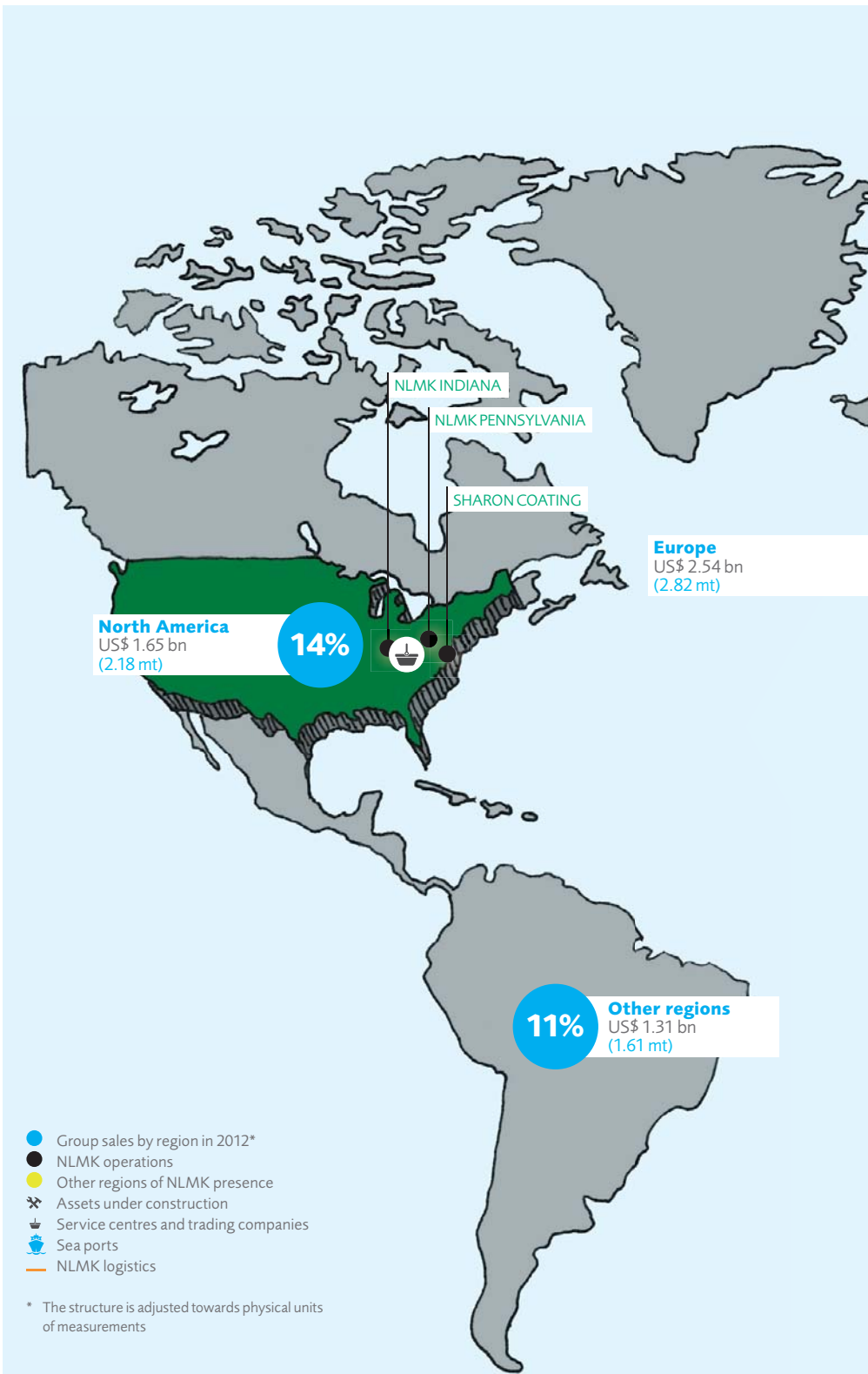
- **Steel segment.** Novolipetsk (Lipetsk site), VIZ-Steel, Altai-Koks, trading companies, as well as a number of service companies.
- **Long products segment.** NSMMZ, UZPS, scrap collection and processing facilities, and others.
- **Mining segment.** Stoilensky, Dolomit and Stagdok.
- **Foreign rolled products segment.** Rolling mill assets located in Europe and the USA.
- All others.

A global Group with a local presence

NLMK Group has assets in 13 countries across three continents. We sell our high-quality products to buyers in over 70 countries worldwide. We make every effort to optimize each step of the production process in order to minimize logistics costs and to secure access to the end user.

Supporting businesses

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



3

We operate on 3 continents

13

Our assets are located in 13 countries

16

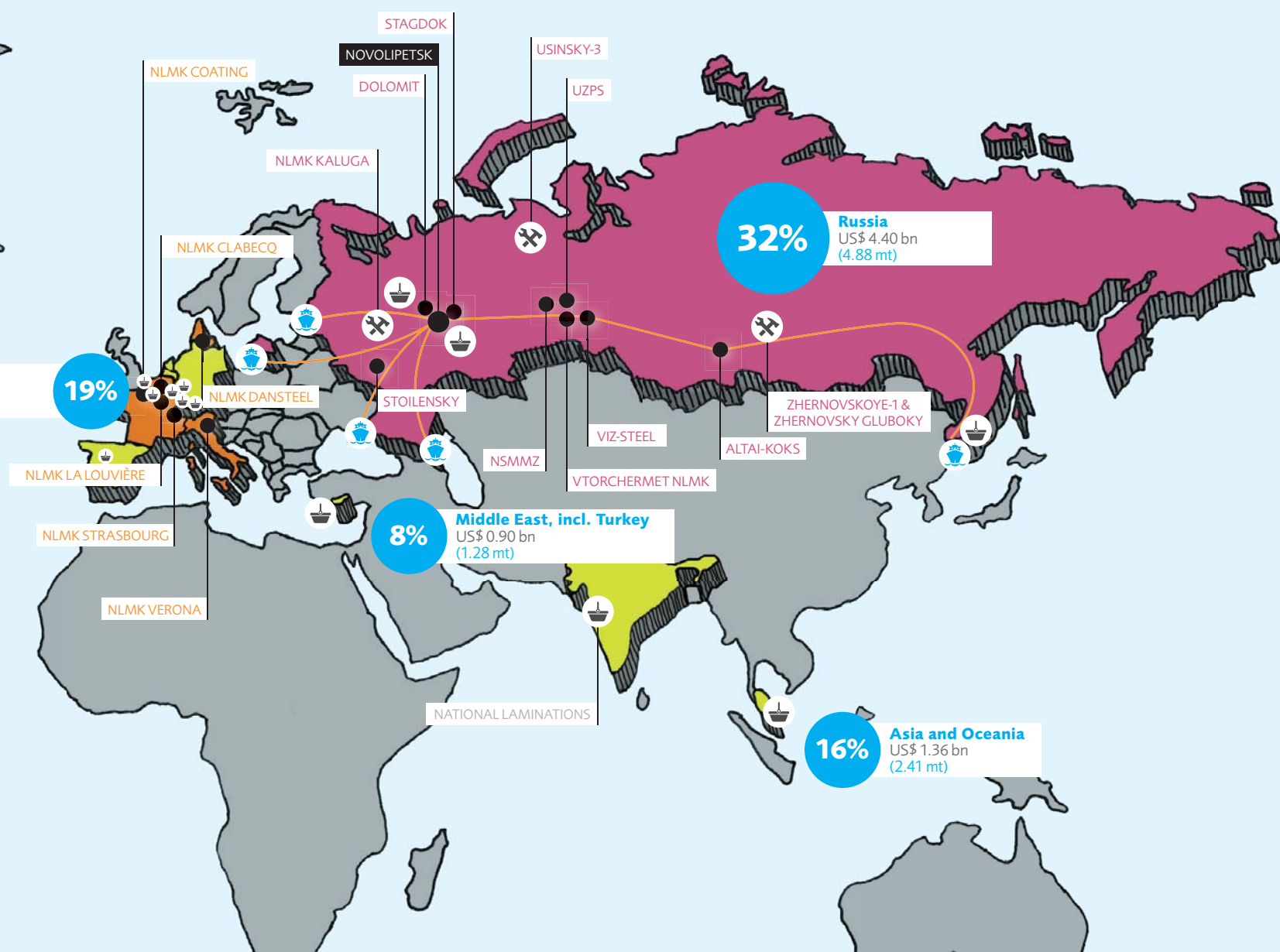
We have 16 service centres and trading companies in key end markets

70

We sell our steel in over 70 countries worldwide

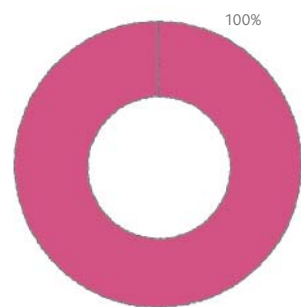


For more information on our supporting businesses



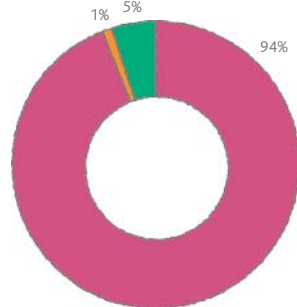
The locality of our business model – breakdown by capacity

Upstream



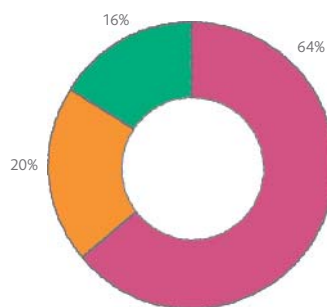
■ NLMK Russia
■ NLMK Europe
■ NLMK USA

Midstream



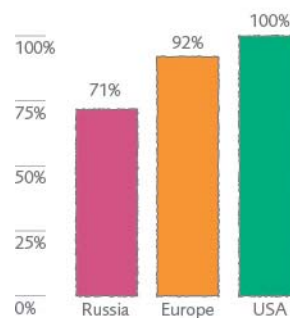
■ NLMK Russia
■ NLMK Europe
■ NLMK USA

Downstream



■ NLMK Russia
■ NLMK Europe
■ NLMK USA

Sales of locally produced finished products



For more information on our sales

67 For more information on our consolidated operating results

Steel is the backbone of modern society

The Group's integrated production model enables it to offer its customers a diversified portfolio of high-quality products while, at the same time, being responsive to changes in market conditions.

Steel is of vital importance to us all

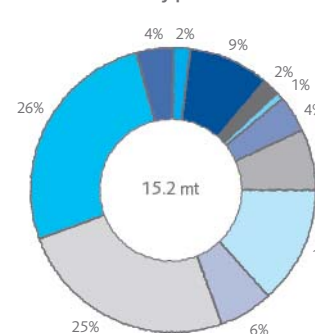
It is all around us: outdoors, indoors, at work and at play. Steel plays an important role in the modern world and is an integral part of our everyday lives, providing us with food and shelter, transforming our working days, enriching our leisure time and making it easier and safer for us to get around. Even when it has been repeatedly processed, steel retains its original properties and can be used again and again to improve our quality of life.

Strong and durable, steel adapts in line with progress. New technologies mean that the properties and types of steel can be varied according to customer requirements.

NLMK is a leading international steelmaker. Our steel is used in many different industries for a variety of products:

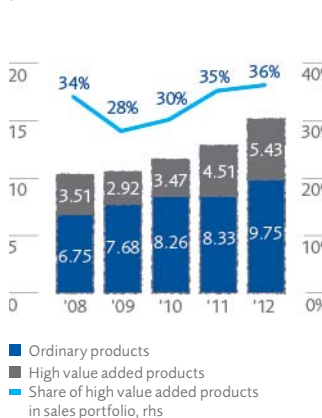
- **Construction**, including infrastructure construction – supporting structures and facing materials, reinforced concrete structures, roof tiles, air conditioning systems; railway infrastructure, highway construction, bridges, etc.
- **Automotive manufacturing** – body panels and parts for cars and commercial vehicles.
- **Pipes** – pipelines, large-diameter pipes for the oil and gas industry, water and gas pipes.
- **Machine building** – mining equipment, agricultural and construction (yellow) machinery, lifting and transport equipment, railway engineering, shipbuilding, wind power engineering, heating and power plants and offshore drilling platforms.
- **Electrical equipment and instrument making** – transformers, electric motors, and generators.
- **White goods** – gas and electric ovens, washing machines, refrigerators, dishwashers, extractor fans, household boilers, etc.

Sales breakdown by product in 2012

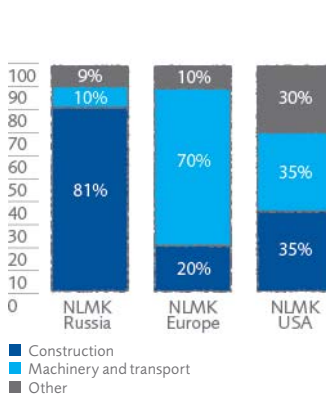


- Metalware
- Long products
- Billets
- Dynamo steel
- Transformer steel
- Pre-painted steel
- Galvanised steel
- Cold-rolled steel
- Hot-rolled thick plates
- Hot-rolled coils
- Slabs
- Pig iron

Steel sales: high value added/ordinary products (mt)



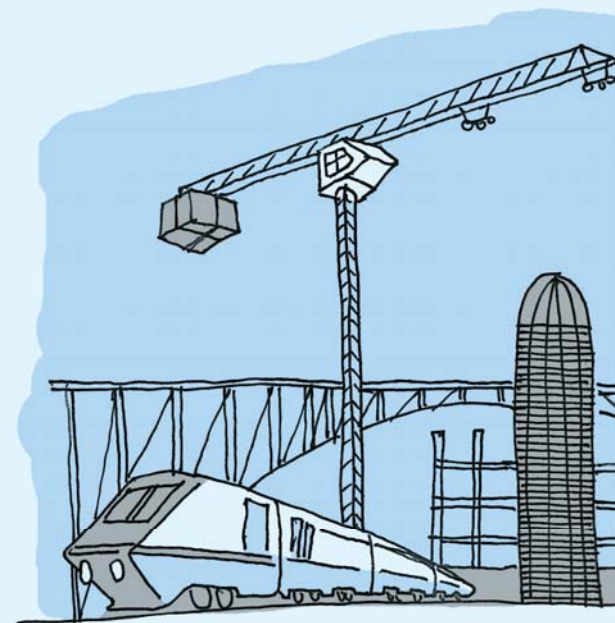
Diversification of sales by industry in 2012



High Value Added products

NLMK is a leading provider of high-quality steel products in key sales markets. Our range of high value added products includes cold-rolled steel, galvanized steel, pre-painted steel, electrical steel (transformer and dynamo), a wide range of thick plates and metalware. The Group is consistently growing its portfolio of value added products through organic expansion as well as through the acquisition of rolling assets with direct access to key market segments.

In 2012, we increased sales of value added products by 20% (to 5.4 mt) compared with 2011, while their share in the total portfolio of sales increased to 36% (up 1 p. p. year-on-year). This was possible due to the consolidation of rolling assets in the Company's key export markets in mid-2011, as well as to the increased sales of high-margin finished steel produced by Novolipetsk.



Construction, service centres, and steel processing

Sales in Russia (mt)

3.93

Share of Russian sales
81%

Flat steel

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

Products

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

% of Russian output*
16%

Hot-rolled thick plates are used in the manufacture of pipes, pressure vessels, ship hulls, and bedplates for wind turbines and compressors, as well as in the construction of bridges.

% of European output
11% ★

Cold-rolled steel is used widely in the production of body parts for machines and equipment, load-bearing structures, pipes, lighting masts, and agricultural equipment.

% of Russian output
29% ★

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

% of Russian output
24% ★

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

% of Russian output
40% ★

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

% of Russian output
100% ★
% of international Market
9%

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

% of Russian output
57% ★

Long steel

Long steel is used primarily in construction and infrastructure projects, which account for over two thirds of the total consumption of this type of product. Long products are also widely used in machine building.

Products

Rebar is used in the construction of reinforced concrete structures for road and building construction, as well as in the manufacture of parts for machinery.

% of Russian output
19%

Wire rod is drawn into wire and used mainly in construction, as well as in transport machine building (steel cords).

% of Russian output
4%

Metalware products are primarily used in the construction sector (fasteners, nails, mesh), as well as in transport machine building.

% of Russian output
18% ★

* W/o hot-rolled thick plates



Automotive

Sales in Russia (mt)

0.25

Share of Russian sales
5%

White goods

Sales in Russia (mt)

0.07

Share of Russian sales
1%

Machine building

Sales in Russia (mt)

0.11

Share of Russian sales
2%

Tube & pipe

Sales in Russia (mt)

0.29

Share of Russian sales
6%

Electrical and
instrument engineering

Sales in Russia (mt)

0.10

Share of Russian sales
2%

Others

Sales in Russia (mt)

0.12

Share of Russian sales
3%

Section II: Strategic review

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We are Growing

NLMK's balanced growth strategy is based upon the development of low-cost upstream and midstream facilities, coupled with downstream assets located close to the end-users. It is also founded on the continuous improvement of the efficiency of production and supporting processes.

- We strive for self-sufficiency in key raw materials in order to guarantee stable deliveries and, hence, to remain a leader in terms of cost efficiency in the world steel industry.
- We have expanded our low-cost steel production facilities in Russia. Constant upgrading and optimization of our technical processes allows us to improve our economic efficiency and to achieve better results.
- We are developing facilities for the production of finished products in Russia and abroad and we are moving closer to the customer by opening new service centres. We invest in quality in order to meet growing and rapidly changing customer needs. By offering high value added products and by expanding our range of niche products, we are increasing the profitability of our business and thereby ensuring its stability.

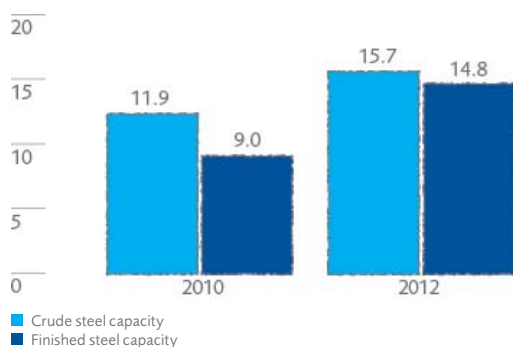


For more information on our Research & Development

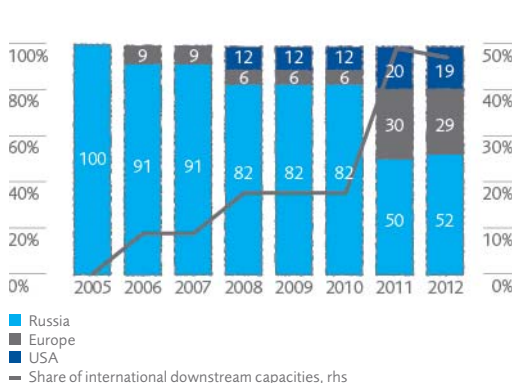


For more information on our key investment projects

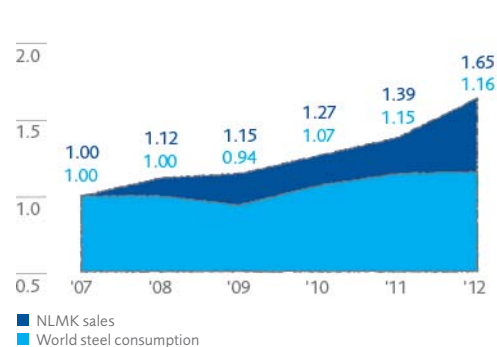
Crude steel and finished steel capacity growth (mt)



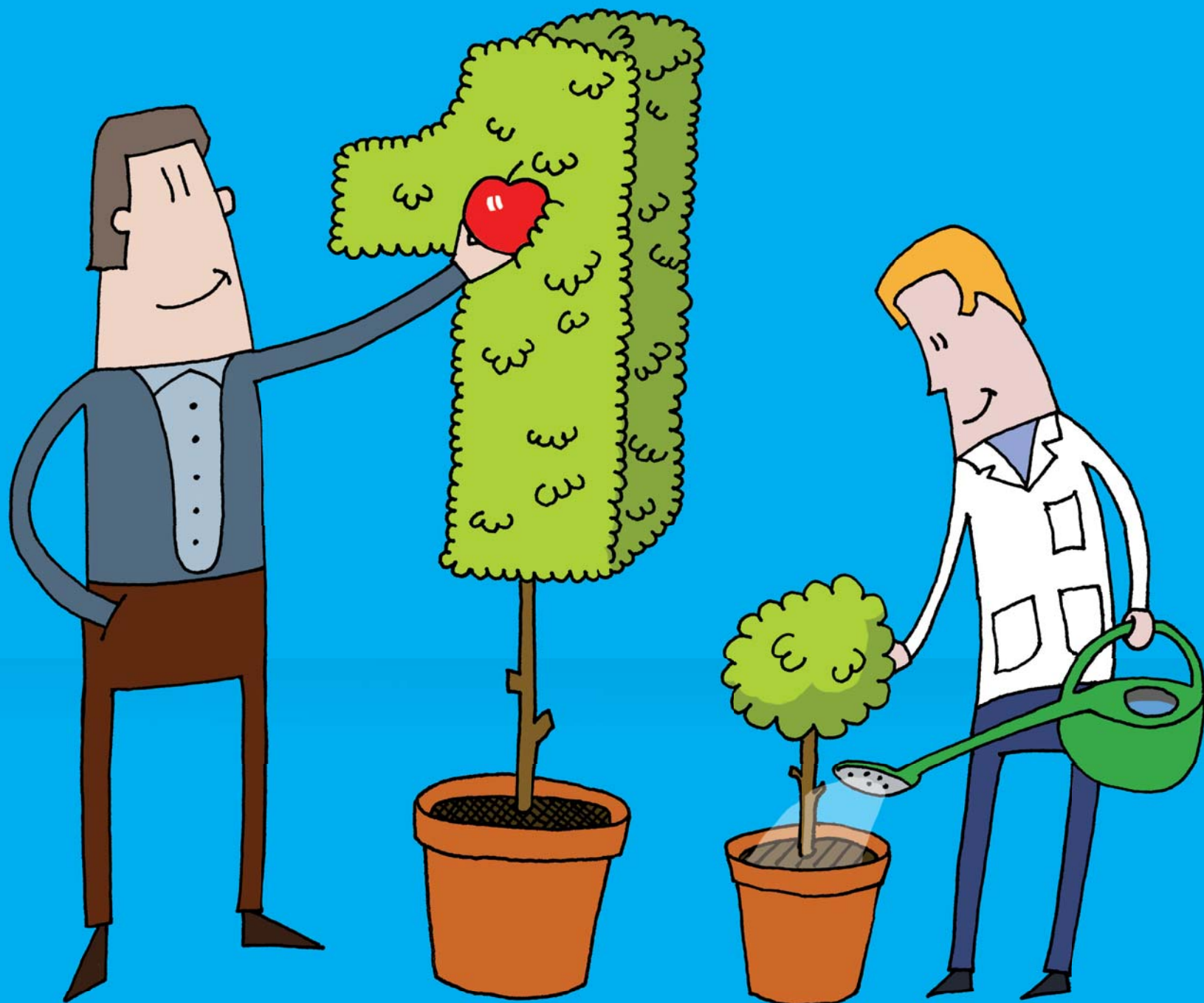
Balanced downstream expansion



NLMK sales growth vs world steel consumption growth (index, base = 2007)



Sources: Worldsteel Association, Company's data



Building a sustainable business

Our strategy is aimed at increasing long-term value and providing the conditions for growth and our key focus will be on continuing to strengthen the stability of our business.



Dear Shareholders,

The past year has been a challenging one for the global steel industry. The imbalance between demand and supply has grown and there are now approximately 0.5 bn t of surplus production capacity. This situation in the industry is nothing new but this time it is on a much greater scale and is exacerbated by high raw material prices. The risk of a prolonged recession in the Eurozone and the lack of clear signals of accelerated growth from the Chinese economy make the crisis in the traditional steel producing regions especially grave. Under these conditions, the most stable companies are those that have been able to integrate quality raw material sources, that have access to large markets, or are able to supply premium products and services. In the course of the last fifteen years, we have established exactly this type of business – one that focuses on our main advantages, stable and capable of developing under any market conditions. The result has lived up to our expectations and has been well worth the effort. NLMK is consistently one of the most profitable companies in the industry, demonstrating impressive growth.



For more information on the market environment

Performance overview

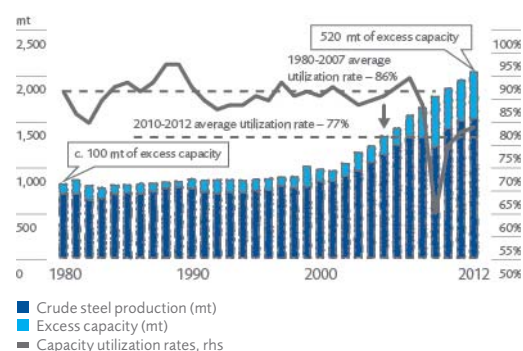
In 2012, as the result of our new efficient production facilities in Russia, the Group increased production by 25% to 14.9 mt. Sales also increased to a record 15.2 mt, thanks to the close integration with our rolling assets in key markets. Profits (EBITDA) were US\$ 1.9 billion and profitability reached 16%, one of the highest in the industry.



For more information on our financial performance

This year, the decision to pay out dividends was taken based on an all-round analysis of possible development scenarios. We came to the conclusion that the Group has sufficient internal resources to maintain stability. This certainty is supported, among other things, by our unchanged high investment grade ratings, the successful placement of the second Eurobond issue in February 2013 and an agreement

World steel capacity and run rates



on restructuring with the workers of La Louvière, our Belgian asset. Based on this, we have decided to pay out dividends for 2012 in the amount of RUB 0.62 per share, or 20% of the Company's net profit, strictly in line with our dividend policy that the Company has adhered to over the last ten years.



For more information for our shareholders

Strategy

Our strategy is aimed at increasing long-term value and providing the conditions for growth and our key focus will be on continuing to strengthen the stability of our business. Through a programme of modernization coupled with an increase in production capacity, we have been able to diversify both geographically and in terms of our product range. Over 90% of our steel production is in Russia, where our raw material assets are located, and this enables us to retain our leading position as a cost-effective producer. Meanwhile, the significant growth in finished product manufacturing capacity, including the organic growth of niche segments and the acquisition of rolling assets, has allowed us to increase sales of high value added products in close proximity to our end consumers. This is true for sales of automotive steel and thick plates in Europe and of pre-painted steel and rebar in Russia.

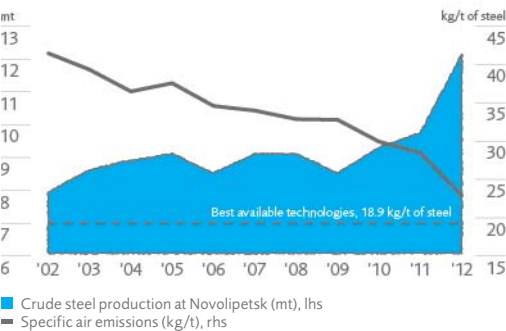
The period of organic growth that began in 2005 will come to an end in 2013 with the launch of NLMK Kaluga mini mill. The focus today is on further improving the business, which includes making efforts to lower costs, through improving the supply of raw materials and by increasing operating efficiency. Another important area is expanding sales of new products and developing better service.

Going forward, we intend to stick to our conservative financial policy and investment discipline. We believe it is optimal to invest only in those projects that guarantee high returns on capital. If it is not possible to invest on this basis, funds will be returned to shareholders.



For more information on our strategy

Sustainable production growth



Corporate governance

I would like to note the importance of the continuity in the successful development of the Group. Last year, Oleg Bagrin took over as President of the Group. He has been on the Board of Directors since 2004 and was recently Chairman of the Strategic Planning Committee. I am confident that, under his leadership, the management team will be able to successfully take on the challenges we face today and move forward.

I also consider it vitally important that all members of the Board of Directors have the rich industry experience necessary to fairly assess the work of the management team, to make timely and relevant decisions and to implement rigorously changes to improve the business. The investment community and experts have a high regard for NLMK's level of transparency and its overall system of corporate governance, which is rightly considered to be one of the best in the industry.



For more information on our corporate governance

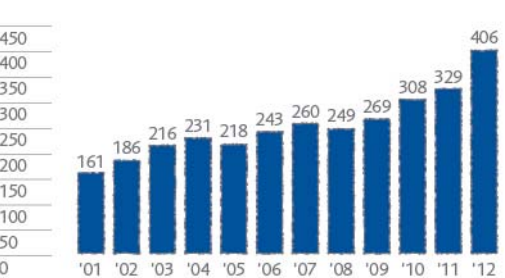
Employees

I am deeply confident that the long-term success of the Group is down to the quality of our HR policy, led by a cohesive management team, which motivates all staff. Therefore in 2010, as Chairman of the Human Resources, Remuneration and Social Policies Committee of the Board of Directors, I made the decision to lead work on making constant improvements in this area. I envisage one of the main projects for the near future to be increasing organizational efficiency, developing a culture of involvement where all staff members take an interest in the results of their work. The aim of this is to establish the conditions required for all employees to realize their full potential.



For more information on our employees

Productivity growth at Novolipetsk (t/employee)



Corporate responsibility

One of the key goals for us is to improve the working conditions and safety for our employees. Production upgrades and the management's consistent efforts have allowed us to make significant progress in this area. Nonetheless, today it is critically important for us to continue to fight against the conscious violations of safety rules, to ensure that normative documents correspond to the actual state of things and to prevent dangerous situations through the efforts of our engineering personnel. We are committed to consistently improving the working conditions for our staff and to making working conditions safer.

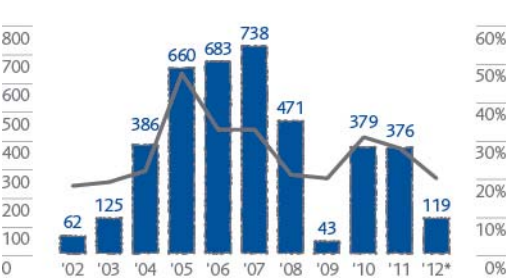
Over the last ten years, US\$ 870 million has been invested into projects directly related to water treatment and dedusting systems, to reducing emissions and waste. This means that despite a 38% growth in production, we have reduced emissions per tonne of steel by 42% at Novolipetsk. We are also striving to make improvements at our other sites and our new mill in Kaluga is designed as the cleanest in Russia. Investments in reducing environmental impact may not bring the highest capital returns today but they are critically important for the long-term value of the Group.

Summing up, I would like to particularly note the contribution of the Group's employees in achieving excellent results in 2012 and wish NLMK continued success for the benefit of all of its staff and shareholders.

Sincerely,

Vladimir Lisin
Chairman of the Board of Directors

Dividend payments (US\$ m)



* The total dividend payment for the year 2012 is subject to approval by the annual General Meeting of shareholders, to be held in June 2013

Efficiency is our core value

Despite unfavourable market conditions, NLMK Group demonstrated record production levels, increasing steel output by 25% to 14.9 mt. This has allowed the Group to become the largest steel producer in Russia with a 20% market share.



Dear Colleagues,

In 2012, the slowdown in the world economy led to a weakening in the demand for steel, causing consumers to reduce their stocks and prices to fall. Global steel consumption grew by only 1.4%, mainly in developing regions.

Performance highlights

Despite unfavourable market conditions, NLMK Group demonstrated record production levels, increasing steel output by 25% to 14.9 mt. Steelmaking capacity utilization remained stable at over 90%. This has allowed the Group to become the largest steel producer in Russia with a 20% market share.



For more information on our operating results

Sales increased by 18% to 15.2 mt with rolled product sales growing by 22% to a record 10.6 mt. The share of finished products in the total sales grew to 70% in 2012. The wide geographic spread of our sales network enabled us to be flexible in the face of the falling demand during the second half of 2012. The product and regional structure of our sales changed in favour of markets and regions with more stable prices.



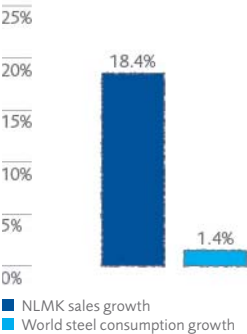
For more information on our sales

Despite the 12% fall in average selling prices, NLMK's sales revenue in 2012 increased by 4% to US\$ 12.2 billion. Our EBITDA fell by 16% to US\$1.9 billion, while our EBITDA margin was 16%, one of the highest in the industry. Over the year, NLMK showed a high level of financial stability, retaining its investment credit ratings from three leading agencies.

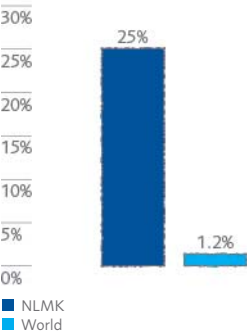


For more information on our financial performance

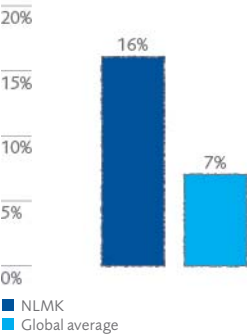
Steel products sales vs consumption growth 2012/2011



Crude steel production growth 2012/2011



2012 EBITDA margin



Sources: World Steel Association, World Steel Dynamics

Investments in 2012

Investments fell from their 2011 peak by 29%, to US\$ 1,435 million. The Group continued to implement projects initiated earlier aimed at increasing operating efficiency and reducing costs. Construction of the NLMK Kaluga Mini Mill, with a capacity of 1.5 mt continued, with the launch date expected to be in mid-2013. The facility will guarantee further growth in steel production, making NLMK one of the leaders in the sale of rebar in Russia. Part of the investment was used to improve the quality of existing products as well as to selectively increase capacity in niche segments. Finally, we plan to reduce capex in the medium term that would also contribute to the gradual deleveraging.



For more information on our investment strategy

Priorities for development

In the current stage of the economic cycle, NLMK's priorities for development are focused on increasing the efficiency of the business and upon integrating the various component parts of the NLMK Group into a single, smoothly operating mechanism. Another important aim remains the increase in raw material self-sufficiency, relying on the Group's asset potential, the use of new technology and new methods. The growth in production at one of the lowest-cost ore production facilities in the world, Stoilensky, will soon allow us to fully meet our requirements for iron ore.

A series of projects has been initiated at the first steelmaking stage to reduce the cost of raw materials and to optimize technical processes. The effect from these management improvements is expected to save up to US\$ 100 million annually.



For more information on our key investment projects

NLMK possesses a range of high quality assets and modern technology but we have yet to tap their full synergetic potential. A key role in achieving this will be played by our employees and so one of our current top priorities is to make all of our business processes and management systems, as well as personnel training and development programmes, more effective.

Management system

Our aim is to build a stable, sustainable, and responsible business, striking the ideal balance between achieving high performance today and building platforms to secure long-term value leadership for tomorrow.

We attach great significance to team values, ensuring that everyone has a personal stake in, and takes responsibility for, the final result and, to that end, we have in place measurable objectives and a clear motivation scheme. In order to meet our day-to-day challenges, it is more important than ever before that we have leaders in every section of the Group - committed, strong personalities able to think critically and to act decisively.



For more information on our personnel policy

Responsible business

While aiming for financial and operating efficiency, we must not forget our responsibility to society. This is an important element in the long-term value of our business and one of the main priorities of NLMK's Board of Directors and the Management Board. We will endeavour to continue to improve conditions for our staff, including salaries, working conditions, and health and safety. We attach vital significance to reducing the Company's impact on the environment. Investments in environmental projects and human capital are among our top priorities, consistently reflected in the Group's development programme.



For more information on our environmental initiatives

Outlook

We do not expect the period of instability in the global economy to end soon. As a global industry, steelmaking is fully experiencing the consequences of the weak global markets. We are not seeing the signs of stable growth in steel consumption that we saw up until 2008 and in the first years of post-crisis recovery. In the face of continuing weak demand, the industry has to complete the transformation and improvement stage, using the potential of streamlining inefficient capacities, eliminating regional supply/demand imbalances and using new technology and solutions. On a positive note, the need for structural change is widely understood today.

In 2013 we expect a marginal increase in the demand for steel that will continue to be driven by developing countries. The imbalance between production and demand will be the decisive factor in determining the price dynamic over the coming year. Competition for the end user will remain fierce, creating the conditions for further localization of end product markets.

We are convinced that NLMK has strong competitive advantages that will ensure the Group's stability and success in the current market conditions. NLMK management has proved to be capable of completing large-scale development projects in crisis conditions and, furthermore, is committed to achieving the targets of improving business efficiency and creating the conditions for further increasing the value of the Group.

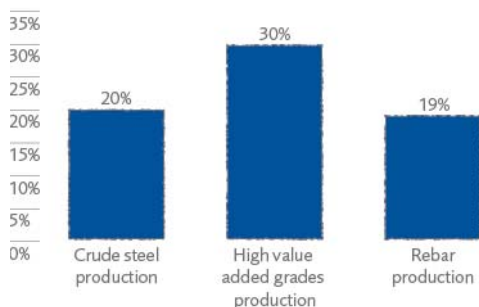
Finally, I would like to thank each of the 63,000 NLMK employees working in 13 countries for their contribution to our results. I am confident that together we can build an even more successful and stable future.

Yours sincerely,

Oleg Bagrin

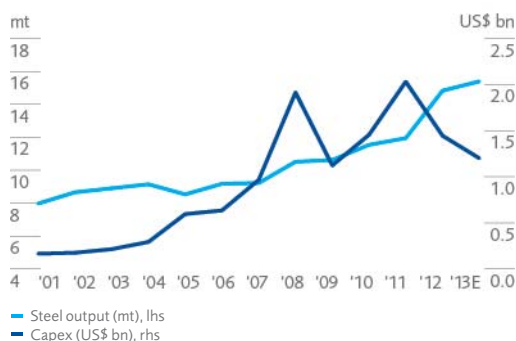
President (Chairman of the Management Board)

NLMK position in Russian steel industry

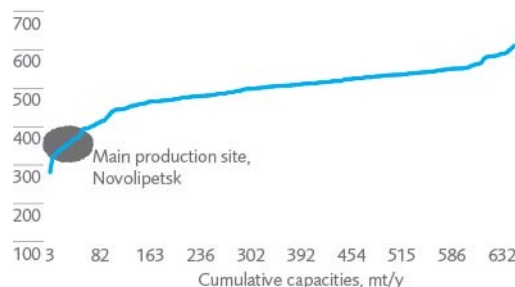


Sources: Metal Expert, Company data

Capex and steel output



NLMK maintains a strong competitive advantage in production costs (US\$/t)



Source: World Steel Dynamics

Responding to our investors



Oleg Bagrin

President (Chairman of the Management Board), Member of the Board of Directors

Q. How does steelmaking overcapacity in the world impact the Group's strategy?

A. Overcapacity in the global steel industry has become one of the consequences of the economic crisis that began in 2008 and continues to this day. According to preliminary estimates, overcapacity in steel production is around 500 million tonnes, which represents more than a quarter of the world's total capacity. This situation has a negative impact on the prices for steel products and, ultimately, it leads to a fall in profitability for many companies around the world. Given these conditions, the basic principles of the Group's strategy, including maintaining its stability and searching for ways to improve its efficiency, are particularly relevant.

At the same time, changing market conditions have led to an evolution of the Group's strategic priorities. While, in previous years, the Group has actively increased its capacity almost doubling it during the past five years, today we are focusing on maximizing the efficiency of the business, balancing elements in the production chain and optimizing business processes. NLMK will continue to focus on improving product quality and developing the production of high value added and niche products.

Q. What are the Group's main medium term strategic priorities? What key investment projects is the Group planning to implement in the short and medium term?

A. The key project for 2013 is the launch of the NLMK-Kaluga mini mill. This project will enable NLMK Group to increase its production capacity for high quality long products by 70%.

The programme to develop transformer steel production is in its final stage: manufacture of high-permeability transformer steel will begin at Novolipetsk in 2013.

Recently, special emphasis has been placed on programmes to reduce costs at all levels of production: including through increasing energy efficiency, by cutting expenditure and by the use of less expensive raw materials without lowering the quality of the products manufactured.

In the medium-term, one of our strategic goals is to enhance vertical integration of raw materials. The key investment projects in this area are the construction of our own pellet production facilities and an increase in the production of iron ore concentrate at Stoilensky. These projects will allow us to attain 100% self-sufficiency in iron ore. We also intend to implement several projects to develop our own scrap processing network.



For more information on our strategy



Horacio Malfatto

President (CEO) of NLMK Europe

Q. What is NLMK Europe's strategy for the next 5 years?

A. The key strategic priorities for the development of NLMK Europe over the next few years are improved operating efficiency and advances in the production of high value added steels, primarily niche products. Among these, the expansion of our production and distribution network for plates and NLMK's deeper penetration into the European automotive market rank amongst the most important. To this end, we have implemented a number of important capex projects to upgrade the Division's rolling equipment: we've commissioned a new mill at NLMK DanSteel and have launched brand new rolling facilities at NLMK Clabecq. These measures have allowed us to expand the product mix and to improve the quality of our products.

In the future, we plan to direct investments towards debottlenecking initiatives in our flat steel operations. This will enable us to reduce significantly our working capital and, most important, to attract new clients. We are convinced that the Division's further integration within the Group's Russian assets will create further opportunities for continuous efficiency improvements throughout the value chain.



For more information on NLMK Europe division



Alexander Saprykin

Vice President, Strategic Raw Materials Division

Q. Please describe the situation in the raw material markets in 2012. What changes are expected in 2013?

A. In 2012, the world faced a global steel overproduction crisis and this imbalance of supply and demand was also evident on the commodity markets. According to experts, 2013 will be quite a difficult year for steelmakers, which, of course, will affect the markets for coal and iron ore.

The imbalance on the coal market and the sharp decline in prices for steel products led to a correction in coking coal prices in the second half of 2012. On the Russian market, the price of coking coal in 2012, to some extent, reflected the trends on foreign markets but with a certain time lag. Russia produces about 80 mt/y of coking coal, of which it consumes 65%. In 2013, we expect a gradual increase in the supply of coal with a stable level of consumption by steel companies. However, demand in the export markets remains poor and this will continue to put pressure on domestic prices.

In 2012, the global iron ore market was unstable and prices were volatile. The main factors behind this were high inventory levels of iron ore fines in Chinese ports coupled with an increase in supply from major ore manufacturers. Although a reduction is possible in 2013, it is expected that iron ore prices will remain at moderately high levels. On the whole, the mining industry in Russia experienced an upturn in 2012, where domestic companies increased production by 0.6% year-on-year to 105.2 mt. It is expected that the price dynamics of the Russian iron ore market will depend on developments in global markets.



Grigory Fedorishin

Vice President, Finance

Q. What is the optimal debt leverage for the Group? Will NLMK's financial policy change in the medium-term?

A. NLMK traditionally follows a conservative financial policy.

The growth of debt in recent years has been due to an Upgrade and Development Programme at NLMK, which has included investment projects requiring substantial capital expenditures together with the acquisition of new assets. Nevertheless, at the close of 2012, the ratio of net debt to EBITDA remains one of the lowest in the industry at 1.88.

Today, the most capital-intensive phase of this development has been completed and, since 2011, investment has fallen by 25–30% per year. The decrease in capital intensity in the Company's future development will enable us to put in place a flexible financial strategy and to reduce the debt burden; in the medium term, we are focused on a target ratio of net debt to EBITDA of 1.0. We also adhere to a balanced dividend policy, which envisages a dividend of between 20% and 30% of net income, depending on the results for the year.



For more information on our financial position

Q. Should we expect any changes to the Dividend Policy in the near future?

A. There have been no significant changes to NLMK's Dividend Policy since it was adopted in 2005. The aim of the Dividend Policy is to provide stable dividend payments to the Group's shareholders, taking into account profit levels and the funds needed to further develop NLMK.

Provided that dividend payments do not negatively affect the Group's financial position or hinder its growth potential, NLMK pays out a minimum of 20% of its consolidated net income. Moreover, NLMK aims to pay out an average of at least 30% of consolidated net income as dividend payments over a five-year period.

NLMK's current Dividend Policy is well balanced and it is unlikely to be significantly amended in the near future.



For more information on our Dividend Policy

Responding to our investors (continued)



Konstantin Arshakuni

Director for Strategy and Business Development

Q. What are the Company's plans for the Usinsky-3, Zhernovskoye-1 and Zhernovski Gluboki coal deposits?

A. Work to assess the development prospects for the Zhernovskoye-1 and Usinsky-3 coal deposits is currently being carried out under licence agreements. Since the development of these fields is a capital-intensive process, the schedule for further investment depends to a large extent on how the industry develops. Because difficulties on the raw materials and steel markets are expected to continue, a higher priority for the Company are projects to reduce the consumption of valuable grades of coal and coke in the blast furnace. With a much lower capital cost compared to developing our own coalfields, these techniques produce a significant operational benefit, allowing the Group to remain one of the lowest-cost producers on the world steel market.

Nevertheless, the cost-effective vertical integration of our main raw material remains one of the Company's key strategic objectives in the medium term.



For more information on our projects to maximize cost-efficient upstream integration into key resources



Alexander Burayev

Director for Long Products and Metalware

Q. When will NLMK Kaluga be launched? What products will it produce? Who will be its key consumers?

A. NLMK Kaluga is a mini mill equipped with an electric arc furnace with a capacity of 1.5 mt/y of steel and an integrated rolling mill for the production of a wide range of rebar and structural shapes. Hot testing is expected to begin in May 2013. By the end of 2012, cumulative capex for this project totalled about RUB 30 billion.

The plant is located in central Russia, close to major consumers and key raw material suppliers and its commissioning will strengthen NLMK's position on the growing Russian market for long products, with a 23% share of the rebar market and a 12% share of the market for structural shapes. The Group will have a 33% share of the market for rolled steel used in construction in Central Russia.

NLMK Kaluga incorporates the latest technical and technological developments, thereby ensuring the production of the highest-quality products and improved technical and economic performance. An SAP ERP management system will be introduced at the plant.



For more information on NLMK Kaluga project



Anton Bazulev

Director of External Relations

Q. How will Russia's accession to the WTO impact the steel sector and the Company's business?

A. Russia's accession to the World Trade Organisation (WTO) will have both positive and negative consequences for the steel industry. The import duty rates for the majority of steel product types will remain unchanged at 5%, therefore we do not expect a significant increase in competition from international suppliers in the Russian market. Moreover, Russian exporters will now have a mechanism to contest discriminatory decisions through WTO arbitration and the automatic dissolution of the quota agreement between Russia and the EU will allow Russian producers to increase their supplies of steel products to the European market.

In fact, as far as NLMK is concerned, there will be very little change, since the company has held a stable share of the European market for many years and has long-term partnerships with customers in the region.

On the other hand, WTO membership brings a range of risks for the Russian steel industry. WTO accession increases the risk of anti-dumping tariffs being introduced with regard to Russian steel producers. In addition, increased competition in the Russian machine and equipment markets could have a negative impact on steel product consumption.

In any case, we do not expect WTO membership to resolve all issues. The effect will be all-encompassing and will be determined for the most part by how Russia moves forward along the path to development, increased investment and economic growth.



Yury Larin

Vice President, Technology Development & Operational Efficiency

Q. Would you qualify the key CR trends as positive (CO₂ emissions, water consumption, waste recycling, etc.)?

A. As a socially responsible company, NLMK is committed to continually reducing its negative impact on the environment.

Over the last five years, environmental investments have totalled around US\$ 650 million. Significant investments have enabled the introduction of new, environmentally friendly equipment and a number of new environmental technologies and the increase in the degree of processing of by-products and previously unused waste.

As a consequence, NLMK has achieved impressive results. With a substantial increase in production at the main site, over a five-year period specific air emissions have reduced by more than a quarter and specific water consumption has decreased to a level that is superior to the best available technology in the industry. We have also eliminated completely the discharging of pollutants into watercourses. We attach great importance to industrial waste processing and, in 2012, the recycling rate at Novolipetsk was 93%.

The Company will continue to adhere to the principle of sustainable development, while minimizing negative effects on the environment in the regions where it operates.



For more information on our environmental protection initiatives



Stanislav Tsyrlin

Vice President, HR & Management System

Q. What is the amount of funds allocated by NLMK Group towards financing social programmes in 2012? What are the key projects implemented in the reporting period? How does the Group support its employees?

A. NLMK has made improvements in the quality of life of its employees and the development of regions where the Group's assets are located a key priority and achieves this, in part, by offering assistance to local residents.

We ensure that our employees receive high-quality medical care under voluntary health insurance schemes, that they participate in additional pension arrangements and that they have the opportunity to improve their living conditions. The Group has a number of recuperation and recreation programmes for employees and their families and also provides social support for veterans and pensioners.



For more information on our employees

The Group focuses particularly on the development of local communities: we are implementing programmes to improve the social environment, to provide financial assistance to educational, cultural and sports institutions and to help vulnerable people. For example, in 2012 we have continued the infrastructure improvement assistance programme for local residents that we began in 2010. NLMK has provided prompt assistance to residents of the Lipetsk Region to help them manage the consequences of a natural disaster.

In 2012, we continued to work on promoting a healthy lifestyle and supporting sport among the Group's employees and local residents, as well as undertaking efforts to provide young people with career counselling. In total, the Group spent approximately RUB 1.5 billion (US\$ 48 million) on social programmes in Lipetsk in 2012.



For more information on our community engagement

Challenging worldwide market conditions

In 2012, the development of the steel market in general was reminiscent of the scenario in 2011: a short-term spike in demand in H1 gave way to increasing difficulties in the overall economy of the EU in H2, which precipitated a fall in the demand for and prices of steel and raw materials.

Demand on the world market has shown cyclical growth over the last four years. On the one hand, the problems in certain regions have worsened: the EU debt crisis and the issue of the US national debt in particular continue to have a negative influence on global economic growth and the market for steel.

On the other hand, economic growth in developing countries, a significant proportion of which consists of growth in fixed capital investment, partially compensates for the stagnating demand for steel in a number of developed nations. Thus, we are witnessing a deepening global imbalance: the consumption and, as a result, the production of steel is shifting to developing nations at the same time as a significant proportion of production capacity in developed economies remains idle, which leads to a persistent underutilization of capacity.

Global economic environment

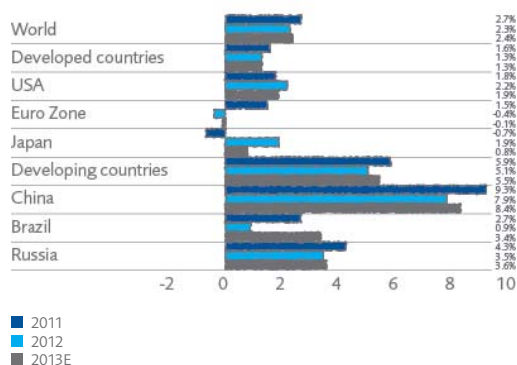
The beginning of 2012 saw economic recovery following weak growth at the end of 2011. Actions taken in Europe with regard to fiscal and credit policies, as well as a relaxing of monetary control in developing nations, strengthened the real sector of the economy and improved the climate in the financial markets. Nevertheless, in the middle of the year, the exacerbation of the debt crisis in Europe and growing

concern over the 'fiscal cliff' in the US sharply increased tension and uncertainty in the global markets. The decline in direct foreign investment and in demand for export products on the part of the developed world, were manifested in a slowdown in industrial production worldwide. Measures taken by the European Central Bank have improved the situation on the financial markets; however, in the real sector, the trends were bidirectional during the second half of the year. Whereas, in the developing world, the rate of economic growth has gradually increased owing to a renewed influx of capital and an increase in domestic demand, in the developed world, a failure to resolve fundamental economic problems has resulted in a recession. As a result, in 2012 the rate of growth in the world economy slowed in comparison with 2011, from 2.7% to 2.3%.

Global commodity markets

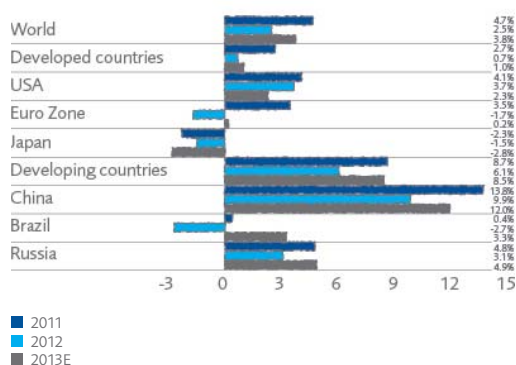
The state of the global market for raw materials has reflected the general changes in the economy. The steel sector has experienced a substantial downward trend in profit margins, as a result of which steel companies have been forced to cut production costs, including expenditure on inward raw materials. This, to a significant degree, made inevitable the decline in demand and prices for iron ore and coking coals, which lasted for the greater part of 2012.

Real GDP growth

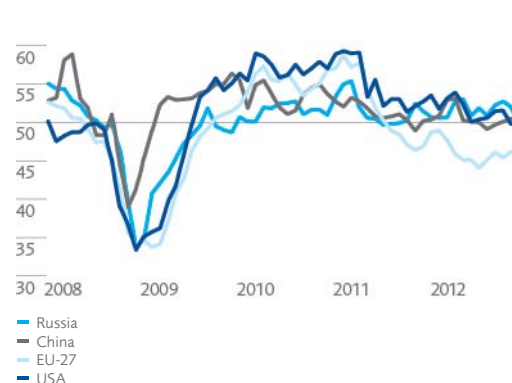


Sources: The World Bank

Industrial production growth

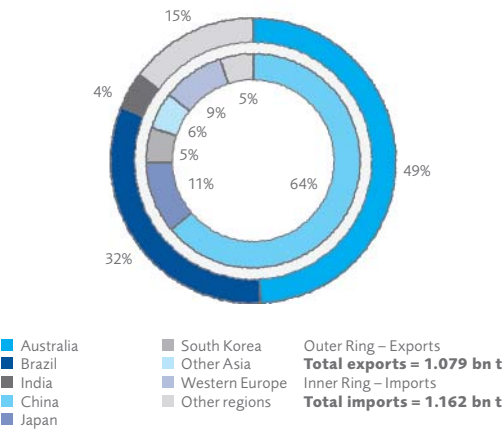


Sources: CRU



Sources: PMI Markit survey tracker, ISM, China Federation of Logistics & Purchasing, HSBC, Markit Economics

Iron ore exports and imports in 2012



Sources: Morgan Stanley Research, NLMK

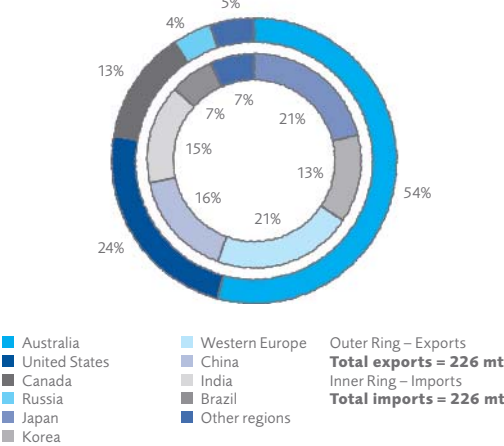
Iron ore market

As in previous years, iron ore prices on the international market were set by demand from China, the world's largest ore importer. In 2012, the volume of international trade was 1.16 billion tonnes, and China's share in the total import of iron ore exceeded 64%.

In the latter half of 2012, against the background of a significant drop in demand for steel raw materials, the price minimum on China's spot market reached the limit of US\$ 86–90/tonne (for ore with an iron content of 62%). The three-year record fall in ore prices in August and September 2012 forced the largest suppliers of this raw material to suspend a number of projects to expand production capacity.

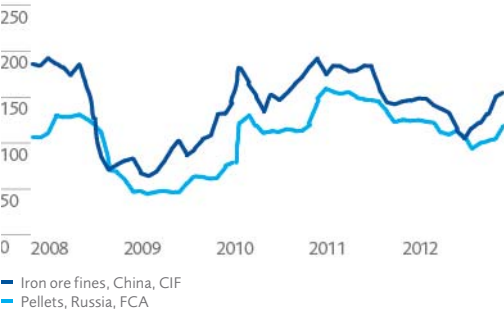
Prices for iron ore in Russia reflected to a significant degree the trends on the international markets. In particular, prices for pellets in H2 2012 decreased by an average of 18% relative to H1 2012, stabilizing at a level of around US\$ 100/tonne at the end of the year.

Coking coal exports and imports in 2012



Sources: Goldman Sachs, NLMK

Iron ore prices (US\$/t)



Sources: Metal Bulletin, Metal-Expert, Metal-Courier

Coking coal market

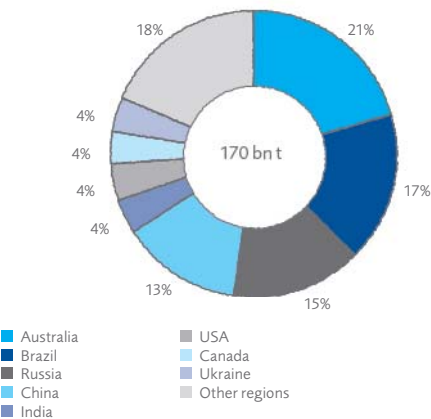
The primary suppliers of raw materials on the global market are companies from Australia (54% of international trade) and North America (37%). In the first half of 2012, export prices for Australian coking coal remained relatively stable (at US\$ 224/tonne for hard grades of coal), owing to seasonal high demand. In H2 2012, in the wake of falling demand in the steel sector, price indicators for coal of all coking grades slumped on average by 22% relative to H1 2012. In the second half of 2012, the coking coal market remained a little volatile although, towards the end of 2012, the prices for Australian high-quality coking coal stabilized at US\$ 157/tonne.

Hard coking coal prices (FOB Australia) (US\$/t)



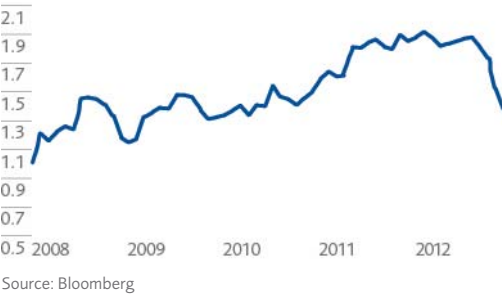
Sources: Metal Bulletin, Metal Expert, Metal Courier

Worldwide iron ore reserves in 2012

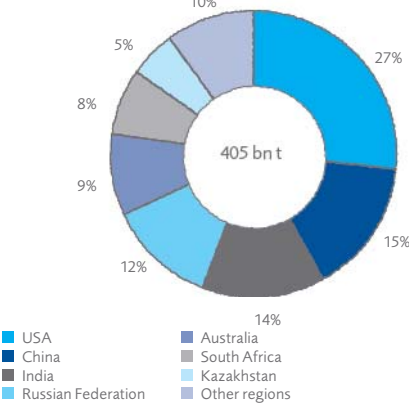


Sources: US Geological Survey 2013, NLMK

Iron ore inventories at Chinese ports (index, January 2008 = 1)



Worldwide coking coal reserves in 2012



Sources: BP Statistical Review, NLMK

Global steel market

In 2012, the dynamics of the international steel market, on the whole, corresponded to the changes occurring in the global economy. In H1 2012, prices and demand for steel products grew; this was accompanied by restocking and in a number of areas, prices for steel products increased by 8–10%. However, in the middle of the year, the worsening global economy had a negative impact upon the industry. In addition to a decrease in demand for steel as the result of a slowdown in the growth rate of industrial production in developing nations and a fall in production in developed countries, downward pressure on prices was put by destocking during a period of uncertainty in the market. As a consequence, capacity utilization decreased, triggering a fall in demand and, correspondingly, a fall in the price of raw materials. At the end of the year, regardless of weak seasonal demand for steel products, prices on the global market gradually began to increase, encouraged by the low level of warehouse stocks and the recovery in prices for raw materials.

According to the World Steel Association, in 2012, the growth of global apparent use of steel slowed to 1.4% against 7.3% in 2011. Ferrous metal producers responded by decreasing the rate of production – the increase in global crude steel production growth fell to 0.7% in comparison with 7.3% in 2011. Steelmaking capacity utilization was 78.8%. As before, Asian countries produced the majority of the world's steel (65%) and China strengthened its leading position in global ferrous metallurgy, with its share of steel production rising to 46.3%. During 2012, there was an increase in exports of steel from China (up 16% year-on-year) at the same time that imports of steel products by the developed world (excluding the USA) decreased. Most of the increase in imports came from developing countries in Asia: Thailand, Indonesia, Malaysia, and the Philippines.

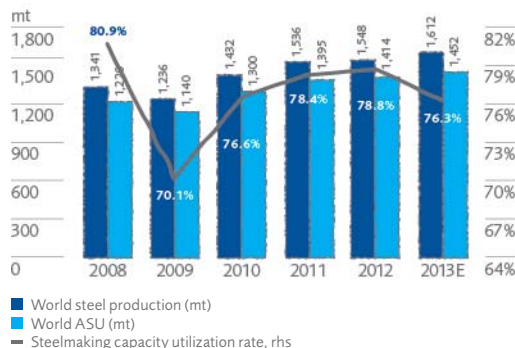
Key trends in the global steel market in 2012:

- Growth in steel output by 0.7% and a low capacity utilization rate at 78.8%
- Reduction in apparent steel use growth rate to 1.4%
- Reduction in average steel product prices
- Lower financial performance across the sector
- Lower rolled product imports by developed countries
- Contraction in global trade – "regionalization" of demand

Developed markets

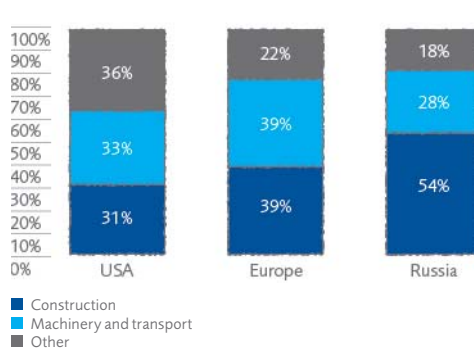
Against a backdrop of exacerbated debt problems in Europe and the threat of a sharp decline in government spending in the USA, economic growth in the developed world continued to slow during 2012, falling from 1.6% in 2011 to 1.3% in the reporting period. A decline in investment and internal demand led to a slowdown in the rate of growth of industrial production, although it remained positive: 0.7% against 2.7% in 2011. Hence, the steel sector in the developed world had to adapt to the decrease in demand for its products as a consequence of the slowdown in the growth rate of the steel-consuming industries. The growth in apparent steel use in the developed world for 2012 dropped by 0.3% against a growth of 6% in 2011. Following a short-lived upturn at the beginning of the year, H2 2012 prices in the developed markets began to slump under pressure from negative market sentiment and fading demand. Consequently, Q4 2012 saw an average 12–14% plunge in prices for rolled steel in the EU and the USA, compared to the peak values at the beginning of the year.

World steel production and apparent steel use (ASU)



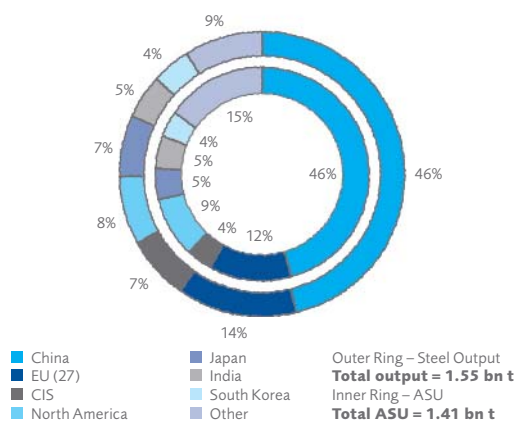
Sources: WSA, WSD

Apparent steel use (ASU) by sector in 2012



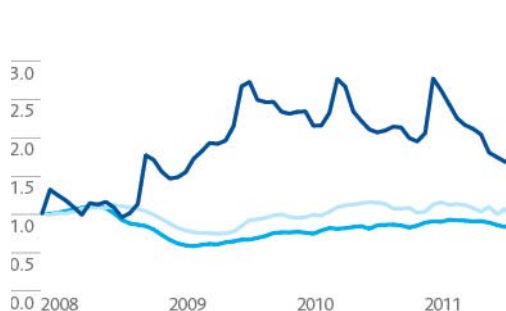
Sources: WSA

World steel production and apparent steel use (ASU) in 2012



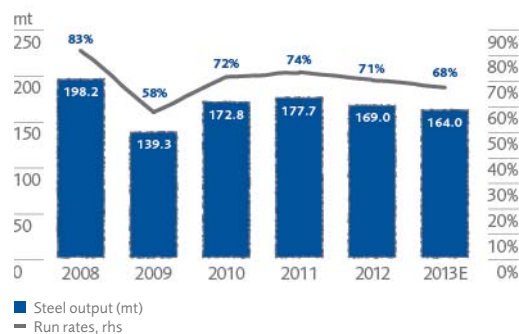
Sources: WSA

Steel inventories (index, January 2008 = 1)



Sources: Bloomberg

Europe steel output and run rates



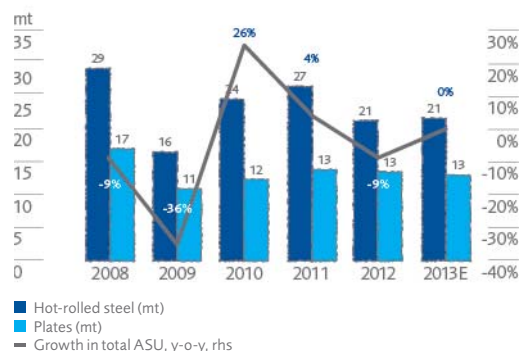
Sources: WSA, Goldman Sachs, NLMK

EU market

The GDP of the European Union is estimated to have fallen 0.4% in 2012, against a growth of 1.5% in 2011. Industrial production in Europe in 2012 decreased by 2.5% compared with a growth of 3.3% in the previous year. This created serious downward pressure on the consumption of ferrous metals: the decrease in demand at the end of 2012 is estimated at 9%, against a growth of 7% in 2011. The apparent rolled steel use in Europe decreased by 14.5%. Demand for thick plate fell by 2%. Prices for rolled steel in the EU fell by an average of 7–12% during the year for each main product type.

The unfavourable economic situation in the European steel industry, as well as the traditionally higher costs of production of liquid steel in comparison with other regions of the world, caused companies to close or to idle their steelmaking capacity and to restructure their European assets. As a result, the focus in the European steel industry has shifted from production of liquid steel to production of high value added finished products, for which demand is more stable.

Europe apparent steel use (ASU)



Sources: GFMS Flat Steel Product 5 Year Forecast, CRU Steel Sheets Products Market

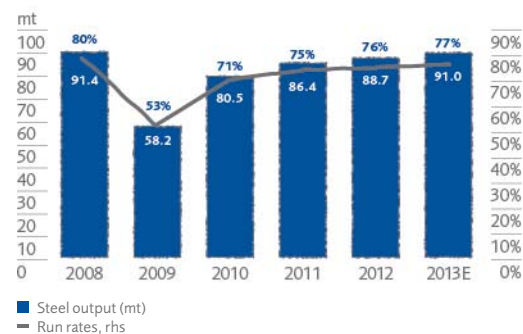


For more information on our sales in the European market

US market

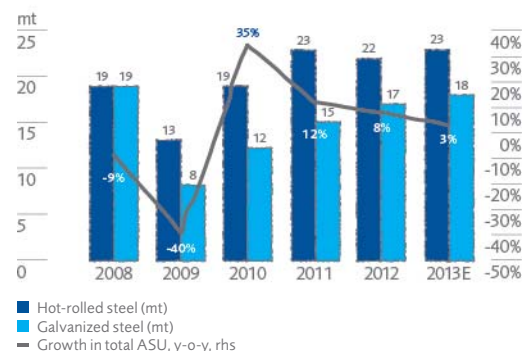
The rate of growth of GDP in the USA in 2012 increased to 2.2% compared with 1.8% in 2011. Nevertheless, due to uncertainty with regard to future fiscal policies, the rate of growth of industrial production slowed from 4.1% in 2011 to 3.7% in 2012. Despite the decrease in investment expenditure, consumer demand, including in the housing market, remained stable. The positive trends in the main steel-consuming industries has allowed demand to increase by 7.8%. Market capacity for rolled steel grew by 4.4%. At the same time, a decrease in buyer activity in the light of the poor overall economic situation in H2 2012, the pressure of imports and the fall in the price of raw materials has led to a decrease in rolled steel prices in the domestic market, by an average of 10–12% in comparison with 2011.

US steel output and run rates



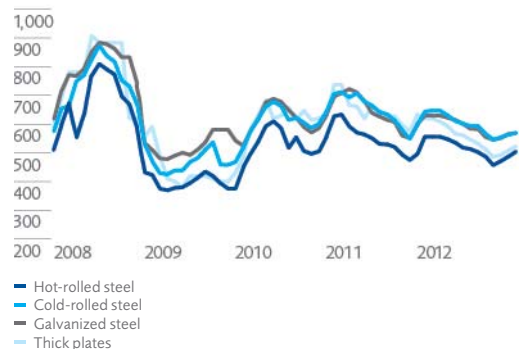
Sources: WSA, Goldman Sachs, NLMK

US apparent steel use (ASU)



Sources: CRU Steel Sheets Products Market

Europe domestic market prices (EXW) (€/t)

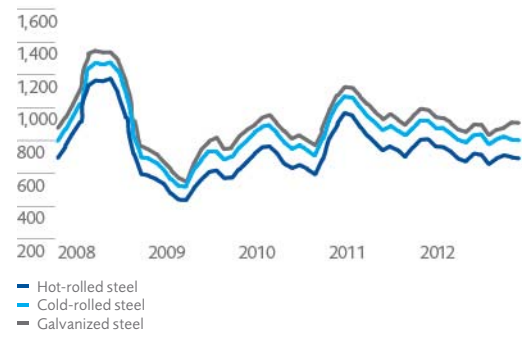


Sources: Metal Bulletin Research



For more information on our sales in the North America market

US domestic market prices (FOB Midwest) (US\$/t)



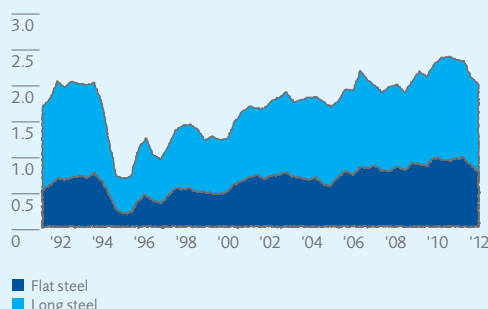
Sources: Metal Bulletin Research

Russian construction sector performance

The construction sector consumes more than half of the steel products on the Russian market. In 2012, the industry showed strong growth, with steel consumption increasing by 14%. New housing in Russia amounted to 65.2 million m² in 2012, exceeding, for the first time, the pre-crisis level of 2008. Support for the housing market continues to come from the development of the Russian mortgage market: in 2012, the volume of mortgage loans increased by 44% year-on-year, reaching RUB 1,029 billion.

The active development of the construction sector, which accounts for about 90% of the consumption of long products in Russia, led to the Russian market becoming a net importer of long products in H2 2012. The launch of new production units in 2013, including NLMK Kaluga, will be able to compensate for the shortage of long products on the market, satisfying the demands of the growing construction sector.

Steel consumed by Russian construction sector (mt)



Source: Metal Expert

"Regardless of the slowing economic growth rate, demand for steel products continued to outstrip the growth in steel production (in 2012 4.5% against 3%, respectively). Hence, the largest growth in demand came from the construction sector."

Emerging markets

In developing countries, the rate of economic growth surpassed the indicators for the developed world although it slowed from 5.9% in 2011 to 5.1% in 2012. The rate of growth in industrial production decreased from 8.7% in 2011 to 6.1% in 2012; this was the result of a fall in demand on the part of the developed world and a decrease in the influx of investment in the middle of the year. Nevertheless, in H2 2012, industrial production growth rates and, consequently, demand for steel products in developing markets began to recover, owing to an increase in fixed capital investment.

In 2012, the rate of growth in apparent steel use in the developing countries fell from 7.7% in 2011 to 2.5% in 2012. In China, the rate of growth in apparent steel use in 2012 was 1.9% against 8% in 2011; in India, it fell to 2.6% in comparison with 7.5% in 2011; in Central and South America, it remained at 2.6%; and in countries in the Middle East and West Africa, growth in apparent steel use increased to 2.2% against 1.4% in 2011.

Prices on developing markets in 2012 followed general global trends. Prices for major types of rolled products in the Middle East and in Asia (including China) dropped by between 10% and 14% compared with 2011 levels.

Russian market

Russia experienced a slowdown in the rate of economic and industrial growth in 2012: GDP increased by 3.5% against 4.3% in 2011 while industrial production increased by 2.6% against 4.7% in the previous year. However, regardless of the slowing economic growth rate, demand for steel products continued to outstrip the growth in steel production (in 2012 4.5% against 3%, respectively). Hence, the largest growth in demand came from the construction sector, which was reflected in an 8.5% increase in consumption of long products in comparison with 2011.

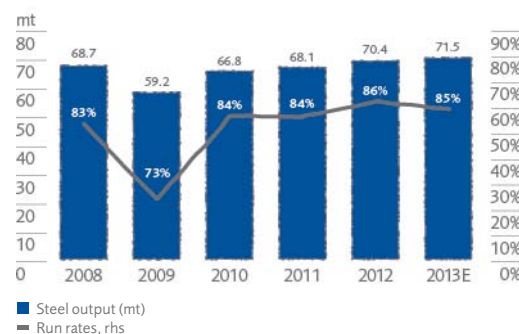
Exports of steel products from Russia increased by 5% in 2012 to 25.3%, owing to a significant growth in the export of semi-finished products (slabs and billets). The major export markets continued to be Europe, the Middle East, and Southeast Asia. At the same time, imports of finished steel products in 2012 grew by 6.5% in comparison with the previous year and, in the middle of the year, Russia became a net importer of long products.

Prices on the Russian domestic market in 2012 decreased in comparison with 2011, the consequence of the fall in prices on the global steel market. Prices decreased by 14% for hot-rolled and cold-rolled products and by 4% for pre-painted steel.



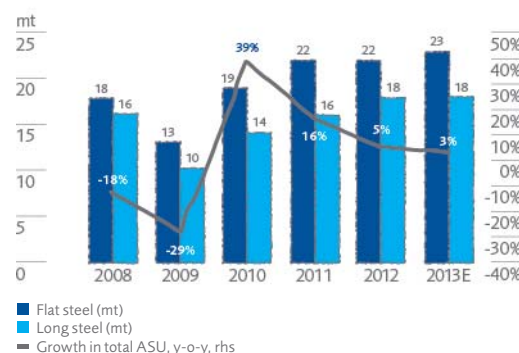
For more information on our sales in the Russian market

Russia steel output and run rates



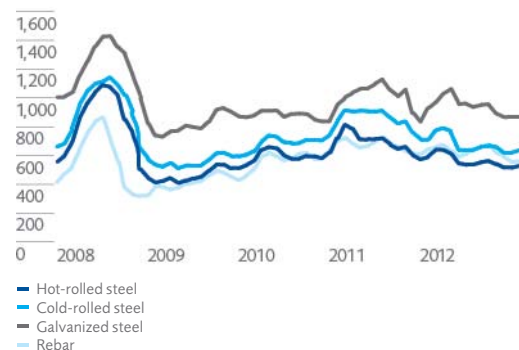
Sources: Rosstat, Goldman Sachs

Russia apparent steel use (ASU)



Sources: IA "Metal Expert"

Russia domestic market prices (EXW), US\$/t



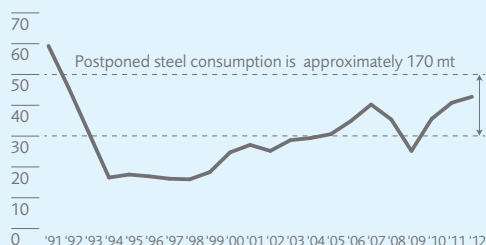
Sources: Metal Courier

Postponed steel consumption in Russia

With the global trend of localized steelmaking, it is important for NLMK to extend its range of finished products in the priority Russian market, which has great growth potential.

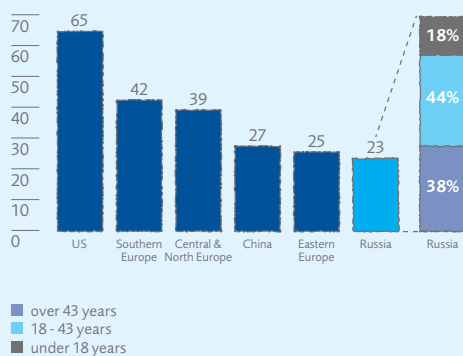
An important factor in the increasing demand for steel products in Russia is the catch-up effect of postponed consumption. According to a number of experts, the amount of postponed steel consumption resulting from the decline in industrial production in the 1990s and the significant deterioration of the housing stock and fixed assets of industrial enterprises is about 170 mt. Experts predict that the residential, commercial, and infrastructural construction industries, as well as the automotive industry, which are major consumers of steel products in Russia, will show a rising demand for steel products in the long run. The expected increase in demand is due to a number of fundamental factors, including the low level of available living space and vehicles in comparison to developed countries and the under-investment in infrastructure.

Steel consumption in Russia (mt)



Source: WSA

Floor space per capita in 2012 – Russia vs other countries (m²) and housing stock age in Russia



Sources: Rosstat, BPIE

Outlook

The increase in economic growth and industrial production rates, predominantly due to the developing nations in Asia (primarily China), the Middle East, and Latin America, may lead to some increase in the rate of growth in global demand for steel during 2013. According to the World Steel Association (WSA) forecast, the growth rate for global apparent steel use may increase to 2.7% in 2013. Under these conditions, the growth in global demand may be 4–5% for rolled products as a whole and 3–4% for long products.

At the same time, we do not anticipate significant changes in the price levels for steel products as a consequence of the ongoing issues with excess capacity in the industry and the lack of the prerequisites for significant changes in raw material prices.

EU market

In 2013, some stabilization of the economic situation in Europe is possible in the light of further measures being implemented to resolve debt problems and to continue the 'adaptive' monetary policies of the European Central Bank (ECB).

Over the course of the year, demand for steel products is expected to stabilize, primarily in sectors such as machine-building and energy; nevertheless, in a number of sectors, including construction and infrastructure, it is possible that demand will weaken. On the whole, at the end of 2013, demand for steel will not exceed 2012 levels, remaining in the range of 140 mt.

US market

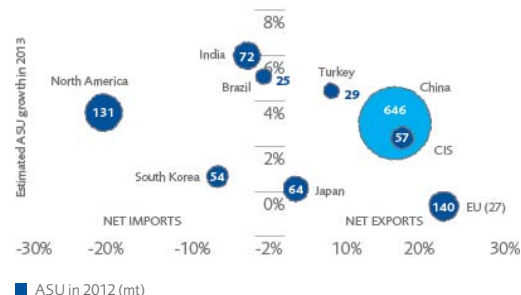
In 2013, the rate of economic growth in the US may slow because of a number of structural problems in the economy and a decrease in government spending. Nevertheless, the projected rate of growth in apparent steel use will remain higher than the global average, facilitated by growth in the residential construction and the automotive industries, as well as the rapid development of the pipe industry as a result of the expansion in oil and gas production.

Russian market

The Russian market has a huge potential for growth in the long term. A significant lack of investment in the residential and infrastructure construction sectors coupled with the deterioration in the available housing stock and the potential for expansion in the transport industry (as a result of both the growth of real income among the general population and the need to replace older vehicles) will lead to stable rates of growth in steel consumption in the future.

If official forecasts for macroeconomic indicators in 2013 are achieved – including a 3.6% growth in GDP, a 3.2% increase in industrial production and a 6.5% rise in fixed capital investment – steel consumption in Russia could increase by 2–4% compared with 2012.

Apparent steel use in the main export markets



Source: WSA

"The increase in economic growth and industrial production rates, predominantly due to the developing nations in Asia (primarily China), the Middle East, and Latin America, may lead to some increase in the rate of growth in global demand for steel during 2013."

Developing our competitive advantages



"The Group's strategy is focused on developing a sustainable business model. We aim to ensure excellent long-term results while maintaining best practices in operational management and corporate governance and a conservative financial policy.

The lynchpin of the Group's stability lies in having an effective and balanced value creation chain, from low-cost production of raw materials to the manufacture of unique steel products with high added value. The platform for sustainable, consistent growth that has been created over the last decade offers the necessary flexibility and capacity for tackling key strategic and operational tasks."

Vladimir Lisin

Chairman of the Board of Directors, Chairman of the Strategic Planning Committee

Our strategy is focused on retaining the trust of our shareholders by providing consistently high financial returns and complete business transparency. The Group has a considerable number of opportunities to achieve this goal thanks to the creation of a platform for sustainable growth.

Strategic objective

Description

1. Maximize cost-efficient upstream integration into key resources



- Develop extraction and production processes; reduce consumption of potentially limited raw materials for which integration is absent or incomplete.



For more information on this objective

2. Improve cost-effectiveness



- Deliver maximum level of potential for increasing the efficiency of production through investment programmes and operational efficiency.



For more information on this objective

3. Develop promising segments



- Maximize financial outcomes by entering promising product, regional, and industry segments, increasing our market share in each.
- Continuously improve product quality and develop competitive technological advantages.



For more information on this objective

4. Maintain efficient and sustainable growth



- Cost-effective production and sales growth.
- Maximize capacity utilization.
- Protect the value generated in the initial process stages through the manufacture of higher value added products.



For more information on this objective

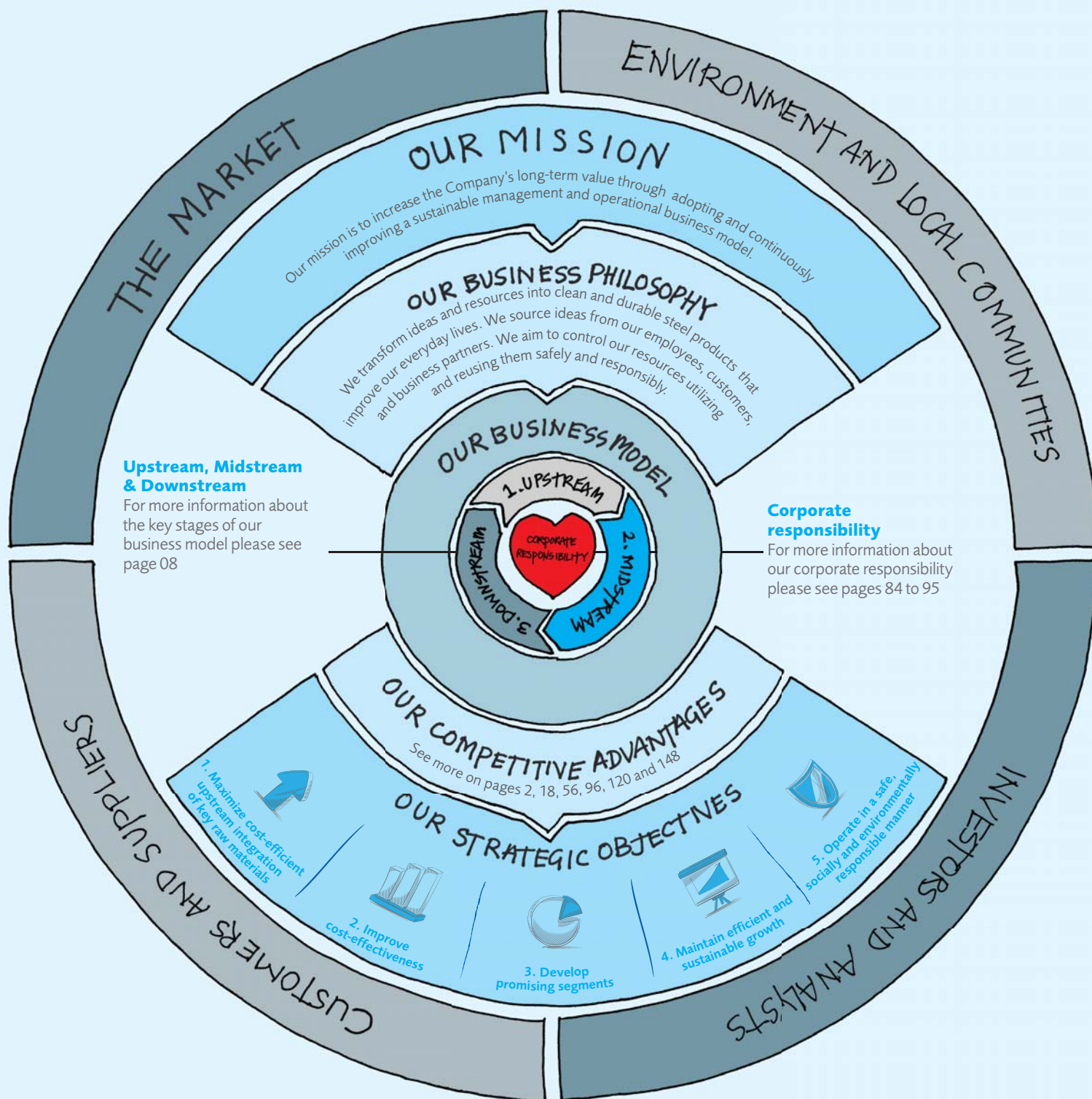
5. Operate in a safe, socially and environmentally responsible manner

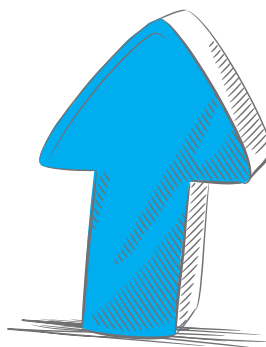


- Ensure manufacturing process complies with the highest occupational health and safety standards.
- Systematically minimize environmental impact.
- Create a positive social environment both onsite and more widely in the regions in which we operate.



For more information on this objective





1.

Maximize cost-efficient upstream integration into key resources

How we do it:

- Develop extraction and production; reduce consumption of potentially limited raw materials for which integration is absent or incomplete.
- The viability of integration is defined on the basis of criteria for maximizing economic impact and reducing the risks of loss of raw material security.

What we did in 2012:

- Improved technologies for coke and chemical production to enable cheaper grades of coal to be used.
- Expanded capacity for the collection of scrap in order to increase the level of self-sufficiency in scrap ferrous metals.
- Expanded capacity for the production of lime in order to satisfy the Company's increasing demand due to the growth in steelmaking capacity.

KPIs:

- Self-sufficiency in iron ore > 100% (after construction of the Pelletizing Plant).
- High level of self-sufficiency in scrap metal: 85% in 2012.

What we said we would do in 2012:

- Begin construction of our own facilities to produce iron ore pellets in order to reduce dependency on external purchases.
- Continue to develop the Vtorchermet NLMK scrap-collecting base in order to supply, in a sustainable manner, the steelmaking facilities of the Group's Russian assets with our own scrap.

What we plan to do in 2013:

- To continue to build our own facilities to produce iron ore pellets in order to reduce dependency on external purchases.
- To further develop our scrap-collecting base.
- To improve and optimize initial processing stages (coke and chemical and blast furnace production) with the aim of incorporating cheaper raw materials.

Risks:

- Risk of a reduction in the price of raw materials linked to the expected increase in extraction capabilities across the world as a result of investment projects, both planned and underway, being implemented by major raw materials suppliers.
- Risks linked to inflation in operating costs.
- Risks linked to infrastructure limitations.
- Risks linked to the implementation of investment projects.

Cutting costs through resource-efficiency

At Novolipetsk blast furnace operations, construction is under way of a pulverized coal injection unit at blast furnaces #3–5. In 2013, a pulverized coal injection unit with a capacity of approximately 2.6 mt/y of pig iron (or about 20% of the entire Novolipetsk capacity) is scheduled for commissioning at BF-5. There is a plan in place to gradually assimilate this technology and to apply it to blast furnaces # 3, 4, 6, and 7.

It is expected that the introduction of this technology will in future allow the site to reduce its consumption of natural gas and coke when producing pig iron, due to the injection of lower grade, steam coal into the blast furnaces.

Project parameters:

Capacity:

To be confirmed

Launch date:

2013

Capex*:

RUB 3,747 m (US\$ 117 m)**

Capex allocated by the end of 2012:

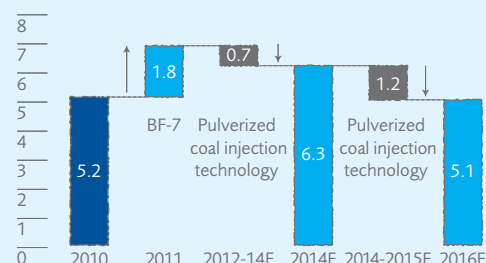
RUB 2,710 m (US\$ 85 m)**

- **20-30%** reduction in specific coke consumption
- **70-80%** reduction in specific natural gas consumption

* Construction cost design parameters, total cost of BF# 3-5 PCI

** Including VAT

Coal consumption trends at Novolipetsk (mt)



For more information on our responsible use of resources



For more information on the key performance indicators used to monitor our progress against objectives



For more information on the risks we face progressing against our strategy



30% capacity expansion at Stoilensky

As part of a strategy to strengthen the cost-effective integration of its major raw material, the Company is undertaking a large-scale development programme at Stoilensky to meet the Group's total demand for high quality iron ore, including pellets and iron ore concentrate.

Key to this programme is the construction of a Pelletizing Plant with a capacity of 6 mt/y. The project began in 2012.

Furthermore, in order to guarantee the necessary supply of raw materials to the plant, parts of its infrastructure are to be improved:

- A 30% increase in mined ore, up to 42 mt/y, by extending the open pit area.
- The construction of Section 5 of the Beneficiation Plant to increase production of iron ore concentrate by 30% from 14 mt/y to 18 mt/y.
- The construction of fine and medium crushing facilities, together with other infrastructure.

Project parameters:

Capacity:

42 mt/y of ore (+30%)
18 mt/y of iron ore concentrate (+30%)
6 mt/y of pellets

Launch date:

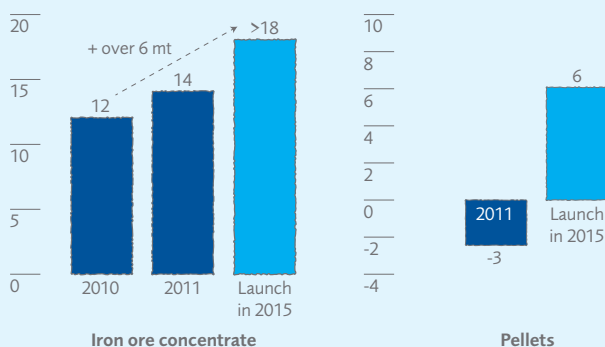
To be confirmed

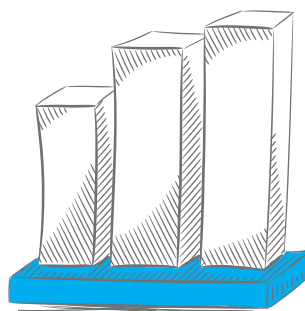
Capex:

To be confirmed

- **100% self-sufficiency in iron ore**

Increased iron ore concentrate and pellet capacity (mt)





2.

Improve cost-effectiveness

How we do it:

Deliver maximum level of potential for increasing the efficiency of production through investment programmes and operational efficiency.

What we did in 2012:

- Programmes to reduce costs and increase operating efficiency at production facilities.
- Programmes to increase the energy efficiency of production.
- Centralized IT services and development of information systems in order to obtain precise and timely information regarding business results.

KPIs:

- Improved operating efficiency – cash cost per tonne of steel: US\$ 388 (-2% compared with 2011).
- Increased production efficiency – reducing the rate of consumption of raw materials, materials, and energy; reducing the number of employees; optimizing working capital.
- A high level of self-sufficiency in electricity (53% in 2012).
- Increased energy efficiency:
 - reducing energy consumption at Novolipetsk from 6.1 Gcal/t in 2011 to 5.7 Gcal/t in 2012.
 - increasing the share of by-product gas recovery from 86% in 2011 to 90% in 2012.

What we said we would do in 2012:

- Develop programmes to improve cost-effectiveness through optimizing processes and technologies and by using resources effectively.
- Further optimize supporting processes.
- Systematize and implement a system of key performance indicators for business processes at all levels of management.

What we plan to do in 2013:

- The focus of the next stage of the investment programme is to increase the cost-effectiveness of production at all sites.
- To further optimize supporting processes.
- To continue the systematization and implementation of a system of key performance indicators for business processes at all levels of management.
- To implement projects to expand our own energy-generating facilities.

Risks:

- Risks linked to the implementation of investment projects.
- Risks linked to the prices of raw materials.

Reheating furnace revamp

The reconstruction of Reheating Furnace # 3, in combination with other measures taken as part of the reconstruction of Mill-2000, has increased its productivity to 320 t/hr, while simultaneously reducing specific fuel consumption by 29.5 kg/t. This updated equipment has allowed the Company to stabilize the hot rolling process, reduce metal loss, improve the precision of strip parameters during rolling and to cut air emissions. The reconstruction of the furnace enables slabs to be processed for the production of various types of finished products, including niche, grain-oriented steel products.

The project is the third installation of this new type of equipment into hot rolling production at Novolipetsk. In conjunction with other reconstruction measures at Mill-2000, its implementation will provide the opportunity to increase the production of hot-rolled steel to 5.7 mt/y.



For more information on the key performance indicators used to monitor our progress against objectives



For more information on the risks we face progressing against our strategy

Project parameters:

Capacity:
Up to 320 t/hr*

Launch date:
October 2011

Capex**:
RUB 1,839 m (US\$ 57 m)***

Capex allocated by the end of 2012:
RUB 1,803 m (US\$ 56 m)***

- 29.5 kg/t reduction in specific fuel consumption
- 60 t/hr increase in furnace design capacity

* For carbon steel
** Construction cost design parameters
*** Including VAT



For more information on Novolipetsk operating performance



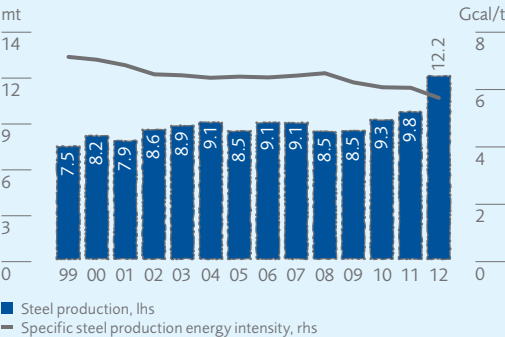
Higher energy self-sufficiency

Improving energy efficiency is one of NLMK Group’s strategic focuses. The aim is to reduce the cost of production in the face of rising energy costs and to achieve the levels of the best available technologies for energy consumption per unit of production.

One of the key objectives for energy efficiency is the maximum utilization of waste energy generated in the production process. The Group has plans to construct new power plants in order to make effective use of available secondary energy sources. For example, in 2012, the start-up of a recovery cogeneration plant using gases from Blast Furnace # 7 resulted in the production of 265 MW of power exclusively through use of process off-gases.

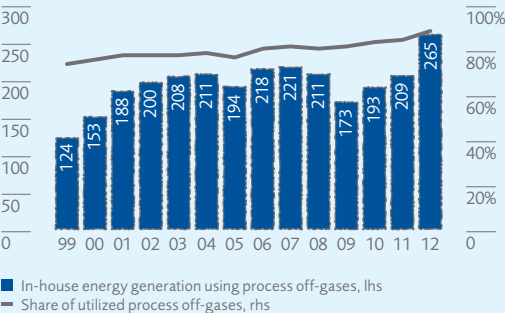
More than half of all electricity consumed by Novolipetsk in 2012 was provided by its own generating sources (53.3%), and in future, with the introduction of new power plants using waste energy, we expect to increase that figure to 68%.

Reduction in energy intensity as steel production increases*



* Data for Novolipetsk

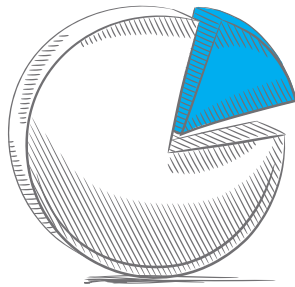
In-house energy generation using process off-gases (MW)*



* Data for Novolipetsk



For more information on how our efficient energy resource management system allows us to reduce industry-specific risks



3.

Develop promising segments

How we do it:

- Maximize financial outcomes by entering promising product, regional, and industry segments, increasing our market share in each. A segment's appeal is characterized by its level of profitability, potential for growth and lack of supply, as well as the opportunity to realize its competitive advantages.
- Continuously improve product quality and develop competitive technological advantages.

What we did in 2012:

- Put a new 4,200 mm mill into operation at NLMK DanSteel, which will allow us to expand the dimensional range of thick plate and to ensure the production of promising grades of thick plate for offshore structures, the wind energy sector and the pipe industry.
- Modernized steel production with the aim of improving quality and developing new grades of steel. Launched a new ladle furnace with a capacity of 2 mt/y, which will allow us to expand the range of grades and compositions of the steel and to achieve high-quality steel for automotive manufacturing, the construction industry, white goods manufacturing and the electrical machine industry.

KPIs:

- Share of Russian market for cold-rolled products for the automotive industry: 39%.
- Share of Russian market for steel alloy wire rod and high-carbon wire rod: 24%.
- Share of European market for thick plate made of alloy, graded steel and super extra thick plate (AT&HP): 11%.
- NLMK Europe Strip division's share of the European market for flat-rolled products for the automotive industry: 3%.

What we said we would do in 2012:

- Complete the project for developing a wide thick plate production facility at NLMK DanSteel.
- Complete the construction of the main units for secondary metallurgy at Novolipetsk in order to expand the range of output.

What we plan to do in 2013:

- To develop production and to increase the quality of new products across all divisions of the Group:
- To continue to implement projects to develop the production of transformer steel at Novolipetsk and at VIZ-Steel.
 - To increase the quality of production at Novolipetsk.
 - To increase the production of high-margin types of wire rod and metalware at NLMK Russia Long.
 - To develop the production of niche grades of thick plate, as well as automobile body sheet at our European assets.

Risks:

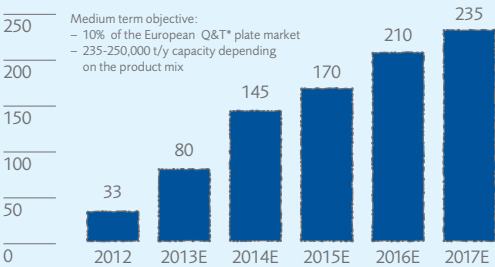
- Risks linked to the cyclical nature of the steel industry.
- Risks linked to the activity of niche product consumers.
- Risks linked to inflation in operating costs.
- Risks linked to the implementation of investment projects.

48 For more information on the key performance indicators used to monitor our progress against objectives

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New Q&T Line at NLMK Clabecq

Growth in Q&T* capacity ('000 t)



* Q&T – quenched and tempered plates. Capacity growth at NLMK Clabecq.

NLMK Clabecq produces a wide range of steel products. The commissioning of the new Quenching and Tempering (Q&T) Line with a capacity of over 200,000 t/y at the end of 2011 became an important step for the company. Following the launch of the new line, over one third of the production of NLMK Clabecq passes through the Quenching & Tempering.

This project allowed the company to enter niche markets, upgrading to a high value added product mix with abrasion resistant and high strength steels, used, for example, in various machine building sectors, and to reduce the risks of price volatility experienced by this traditional steel sector.

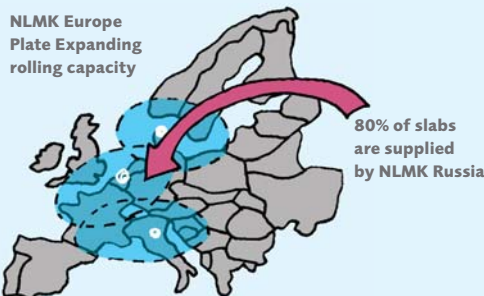
Project parameters:

Capacity:
over 200,000 t/y

Launch date:
2011

Total capex:
US\$ 137 m

- 1/3 of NLMK Clabecq products pass through the Quenching & Tempering
- Strengthened positions in various machine building sectors



78 For more information on NLMK Europe Plate operating performance



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Transformer steel production upgrades

Since 2007, as part of its strategy for developing promising segments, the Group has been carrying out a comprehensive upgrade of its transformer steel production facilities at Novolipetsk and at VIZ-Steel. The project is aimed at mastering the production of a new grade of steel – high-permeability transformer steel - improving the quality of its current commercial steel and lowering production costs. The production technology for high-permeability steel has been developed by the Company's specialists and is patent protected by Russian and international applications under the Patent Cooperation Treaty.

In 2012, the Company continued work on perfecting its production of high-permeability products. The programme to overhaul the production facilities for transformer steel should be completed in 2014–2015. In 2012, work was carried out on many projects, including the construction of a reversing rolling mill at VIZ-Steel, the upgrade of thermal treatment equipment and the reconstruction of electrical insulation coating lines.

Project parameters:

Capacity:

Approximately 330,000 t/y of transformer steel

Including approximately 130,000 t/y of high-permeability steel

Implementation period:

2014-2015

Capex:

RUB 17.3 bn (US\$ 558 m)

Capex spent by the end of 2012:

RUB 13.2 bn (US\$ 426 m)

Capex projects implemented by the end of 2012:

17 of 23

New rolling mill at NLMK DanSteel

NLMK DanSteel has commenced production in a new heavy plate mill which will add new products to the Group's portfolio. The new mill is designed to produce a wider range of plates of between 5 and 200 mm in thickness and up to 4,000 mm in width. The slabs for the new stand will be supplied from the Group's Lipetsk site which, since the upgrade of its Basic Oxygen Furnace (BOF) shop and the introduction of secondary treatment facilities, has been producing the new grades of steel required for these premium sector products.

Igor Sarkits, CEO of NLMK Europe Plate, said: "This milestone development supports our strategy of capturing long-term growth in our key markets by expanding market share, introducing new products, making more efficient use of sales channels and marketing, as well as building our capabilities. This development at NLMK DanSteel, alongside those at other NLMK Group companies – NLMK Verona and NLMK Clabecq, who are constantly expanding their range of products – will ensure that we maintain a strong position in our traditional industries: wind energy, shipbuilding, yellow goods and construction.

"Given the current economic situation in Europe, the new rolling mill at NLMK DanSteel offers the opportunity to substantially increase our presence on export markets, including high growth ones."

Project parameters:

Capacity:

550,000 t/y

Launch date:

October 2012*

Capex:

> € 100 m

Capex spent by the end of 2012:

Approximately € 100 m

- Plates up to **200 mm** thick and up to **4,000 mm** wide
- Expansion into new markets, including pipe and tube manufacturers and offshore construction

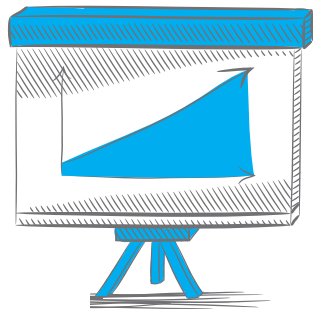
* First plate rolled in the new stand; the stand hasn't yet been transferred under the contract. The official transfer of the stand from SMS Siemag AG is expected during H1 2013.



For more information on our Research & Development



For more information on our position on key markets



4.

Maintain efficient and sustainable growth

How we do it:

- Cost-effective production and sales growth.
- Maximize capacity utilization.
- Protect the value generated in the initial process stages through the manufacture of higher value added products.

What we did in 2012:

- Achieved full capacity of Blast Furnace # 7, totalling 3.4 mt/y and of the BOF capacity.
- 97% readiness of NLMK Kaluga, which is due to launch in mid-2013.

KPIs:

- The NLMK Group's steelmaking capacity utilization was 95% in 2012.
- Supply of rolled products on the Russian market accounted for 70% of the sales of NLMK Russia division.
- Our share of the rod rebar products market was 16%.

What we said we would do in 2012:

- Construct a mini mill to produce long steel in the Kaluga Region.
- Achieve full capacity at the new units at Novolipetsk: Blast Furnace # 7 and the Basic Oxygen Furnace (BOF).

What we plan to do in 2013:

- To complete the construction and launch of the NLMK Kaluga Electric Arc Furnace (EAF) plant with a capacity of 1.5 mt/y of long steel. The project will allow the Group to increase capacity of long steel production in Russia by 70%.

Risks:

- Risks linked to the cyclical nature of the steel industry.
- Risks linked to the prices of raw materials.
- Risks linked to inflation in operating costs.

New high-capacity hot metal desulphurization unit

As part of its strategy to improve the quality of production, NLMK has commissioned a two-station hot metal desulphurization unit with a capacity of 5.8 mt/y. The new equipment means that blast furnaces have been adapted to smelt iron with a lower silicon content, simultaneously increasing the proportion of steel with a low sulphur content. The production facilities are equipped with a high-efficiency waste gas removal system that ensures environmental performance in line with the best available technology.

The project is linked directly to plans to increase the production of high quality steel from 9 to 12.4 mt/y with the commissioning of Blast Furnace #7 and the new Basic Oxygen Furnace (BOF). Three smaller hot metal desulphurization units have already been put into service with a total capacity of around 7 mt/y.

Project parameters:

Capacity:

5.8 mt/y

Launch date:

February 2012

Capex*:

RUB 1,526 m (US\$ 48 m)**

Capex allocated by the end of 2012:

RUB 1,512 m (US\$ 47 m)**

- **100%** of hot metal is processed in desulphurization units
- up to **≤ 0.005%** sulphur in metal

* Design construction cost parameters

** Including VAT



For more information on NLMK Russia operating performance



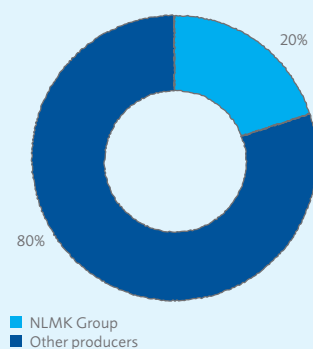
For more information on the key performance indicators used to monitor our progress against objectives



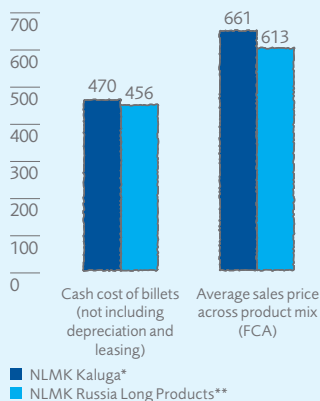
For more information on the risks we face progressing against our strategy



NLMK Group's forecasted share of the Russian long products market for 2013



NLMK Kaluga vs NLMK Russia Long Products in 2013 (US\$/t)



* NLMK Kaluga – in 2013 prices with 100% utilization rates

** NLMK Long Products – budget data for 2013, current production capacity

Construction of NLMK Kaluga mini mill

Construction at NLMK Kaluga (located in the Kaluga region), which will have the capacity to produce up to 1.5 mt/y of rebar and structural shapes, is nearing completion.

The project was conceived as a mini mill. The new production facilities are in close proximity to customers in the central regions of the country, where there is currently insufficient steel production capacity to meet the needs of the construction industry. The launch of the mill means that NLMK Long Products Division will see an increase in sales. Furthermore, the Group will have a logistical advantage in working with the central regions, can expand its range of products and strengthen its position in the Russian long products market.

The main production equipment was installed in 2012, and the project has entered its cold testing stage. The start-up is scheduled for 2013.

Project parameters:

Capacity:

1.5 mt/y

Launch date:

2013

Capex:

RUB 38.4 bn (US\$ 1.2 bn)*

Capex spent by the end of 2012:

RUB 31.08 bn (US\$ 1.0 bn)*

- Increase in NLMK Group share to **35%** in the long product market in the Central Region of Russia

* Including VAT



For more information on NLMK Russia Long operating performance

NLMK USA: strengthening positions in the US market

In 2012, NLMK USA set new records for the sale and production of finished products, which increased by 5% and 5% year-on-year, respectively. These figures are the result of efforts to increase efficiency, to broaden the company's product range, to consolidate its market position and to strengthen its presence on the dynamic market for niche goods in the USA – namely high carbon steel and oil country tubular goods.

During the last three years the division has demonstrated strong growth in sales of finished products to tube and pipe manufacturers and of high carbon steel to the automotive industry and to white goods manufacturers.

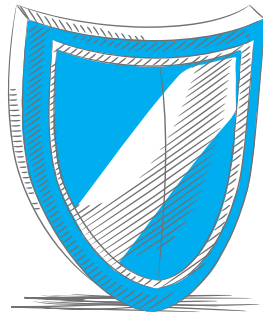
NLMK USA's future plans include increasing sales of high carbon steel to manufacturers of agricultural and heavy machinery, and sales of cold-rolled steel to container manufacturers, as well as raising the volume of sales of electrogalvanized and full-hard steel.

Project parameters:

- **+5%** NLMK USA sales
- **+5%** NLMK USA finished product output
- Stronger presence on the high carbon steel and Oil Country Tubular Goods (OCTG) markets



For more information on NLMK USA operating performance



5.

Operate in a safe, socially and environmentally responsible manner

How we do it:

- Ensure manufacturing processes comply with the highest occupational health and safety standards.
- Systematically minimize environmental impact.
- Create a positive social environment both onsite and more widely in the regions in which we operate.

What we did in 2012:

- Revamped operating equipment with a significant environmental impact.

KPIs:

- To reduce specific air emissions by 19%, from 27.8 kg/t in 2011 to 22.6 kg/t in 2012, alongside an increase in steel production of 25% year-on-year.
- To increase waste recycling (+23% compared with 2011).
- To reduce waste water discharge (-15% compared with 2011).

What we said we would do in 2012:

- Implement a package of environmental projects with the aim of reducing our negative impact on the environment.

What we plan to do in 2013:

- To continue to implement the NLMK Group's environmental programme.

Risks:

- Risks linked to changes in legislation in regions where the Group's companies operate.
- Social risks.



Sustainable development is at the heart of our business

In 2012, around RUB 1.3 billion (US\$ 43 million) was invested in environmental projects at the Lipetsk site. Over 100 measures have been introduced to reduce atmospheric emissions, prevent unsanctioned pollution of the environment and to create green areas at the site. The reduction in the site's environmental footprint was achieved as a result of a whole range of projects. These included the revamping of central dust collection system # 2 at the Sinter Plant and the mixer department of Basic Oxygen Furnace (BOF) Shop # 2. In addition, a series of measures to reduce dust emissions and improved methods for entrapping dust during the gas cleaning process in BOF Shop # 2 were also undertaken.

As a result, emissions fell by 20% in 2012, there was no waste water discharge into the Voronezh River and the volume of previously accumulated solid waste was significantly reduced. There are plans for a further 113 environmental projects in 2013.

Project parameters:
Novolipetsk environmental capex:
RUB 1.3 bn (US\$ 43 m)

- >100 environmental projects implemented in 2012
- -20% reduction in specific emissions
- 0 waste water discharge
- 94% current waste recycling rate



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New waste recycling technology at Novolipetsk

NLMK has developed new technology for using the waste calcium deposits that it has never previously been possible to use in production. This technology - the first in Russia - means that about 500 tonnes of calcium-containing waste created in the blast furnace and heat and power shops can now be processed each year. The processed waste will be used in place of lime solution for preparing the moulds into which molten iron is poured.

This method, designed by specialists within the Group, means that not only can production waste be recycled but also that the amount of lime used in BF Shop #1 can be reduced by 10% (150 t/y). The necessary equipment has now been installed and testing has been carried out. Problems identified during testing are currently being ironed out and the estimated date for the next round of tests is 2015.

Project parameters:

Capacity:

500 t/y of waste

Launch date:

Around 2015

Capex:

RUB 782,000

Capex spent by the end of 2012:

RUB 782,000

- Up to **10%** reduction in limestone consumption at BF Shop # 1

Construction of a waste briquetting plant

As part of the technical upgrade of its Lipetsk site, NLMK is planning to construct a waste briquetting plant with a capacity of 700,000 t/y. The briquettes will be used in blast furnace operations. This method of sintering technogenic raw materials allows the iron and carbon contents of the blast furnace sludge and dust to be utilized.

The construction of the briquetting plant is expected to greatly improve the environment in the surrounding region by recycling production waste and allowing waste storage sites to be replanted. The project will lead to an improvement in the quality of the agglomerate produced and a significant reduction in coke and pellet consumption.

Project parameters:

Capacity:

700,000 t/y of briquettes

Launch date:

To be confirmed, design study stage

Capex:

To be confirmed

NLMK revamps dust collection systems at sintering operations

Reducing dust emissions is a priority for NLMK's environmental management. One of the projects currently underway is the revamping of the central dust collection systems at its Sinter Plant. Since February 2012, a revamped central dust collection system has been in operation at Sintering Machine # 4 in Lipetsk, while the revamping of the # 3 Sintering Machine will be completed during 2013. New electric filters will cut the residue dust content of waste gases by 4 times and result in a total reduction in dust emissions of almost 10%.

Project parameters:

Capacity:

3 million m³ of gas per hour

Launch date:

H2 2013

Capex:

Approximately RUB 1.2 bn (approximately US\$ 40 m)

Capex spent by the end of 2012:

Approximately RUB 900 m (approximately US\$ 30 m)

- **10%** reduction in emissions from sintering operations
- **4 times** reduction in the residue dust content in the exhaust air

We enable our customers to be more competitive

The steel industry has undergone significant structural change over the last five to seven years. Producing quality steel products is no longer enough to maintain leadership in the field; today, we have to adapt to the constantly evolving needs of our customers by offering them the best price-to-quality ratio. Therefore, research and development (R&D) is central to our business culture and the key to our future success.

Altai-Koks gets patents for charge preparation innovations

Rospatent, Russia's Federal Service for Intellectual Property, has granted Altai-Koks patents for two inventions relating to a method for preparing charge coal for coking and to the composition of the charge.

The Group's specialists have proposed adding granulated coal-tar pitch to the charge and using it in the coking process as a sintering component, which has a positive effect on the qualitative characteristics of the coke. A new pitch granulation plant was commissioned in May 2012.

The introduction of pitch to charge coal allows the consumption of high-quality brands of coking coal to be reduced, replacing them with lower quality grades while retaining the required quality in the coke produced. This lowers the risks connected with the increase in coking coal prices and also creates a basis for the use of alternative technologies that reduce the use of coal and natural gas in blast furnace production.



NLMK has historically provided a platform from which new technologies have been developed. These technologies have been adopted successfully, initially by other companies within the sector and then, as a result, they have spread around the world. For example, we developed the technology for the combined use of BOF production and casting of steel in continuous casting machines, which is now used universally.

A commitment to innovative ideas lies at the heart of NLMK's business culture. Flexibility, willingness to adapt to new conditions and a spirit of innovation are each important components of our success. We encourage our employees to develop and to introduce new technologies. In cooperation with our customers, we develop new or adapt existing solutions that fully meet consumer requirements and offer the best options to help our clients improve their competitiveness. Furthermore, we actively cooperate with specialist universities and academic and research institutions when developing new industrial solutions.

An ability and willingness to change will distinguish the company of the future; without these qualities, it will be impossible to maintain and strengthen market position over the coming years.

Today, the NLMK Group employs around 1,174 staff in R&D and their work has resulted in approximately 200 active patents. Over the last five years, approximately RUB 7,476.2 million (US\$ 257.9 million) have been invested in innovative R&D in the following areas:

- Increasing our operating efficiency.
- Improving competitiveness by developing new products that satisfy customer needs.
- Increasing energy efficiency, and
- Minimizing our environmental footprint.

An innovative approach to production processes

NLMK undertakes a programme of continuous scientific research, seeking out ways to use resources more efficiently, to optimize existing production processes and to implement new technologies. Efforts to increase productivity are carried out in an integrated fashion, covering all stages of production, from processing raw materials to improving the consumer properties of the finished product, including HVA products.

The following are the most important developments that were introduced into the production route in 2012:

1. A new 'blow-in' technology for the blast furnace that uses a special type of agglomerate and stabilizes the operation of the blast furnace at start-up, lowers the specific consumption of coke and speeds up the commissioning process following major repairs.
2. A technology that accurately models the flows of liquid steel during casting, significantly improving the quality of semi-finished products and reducing the number of casting faults that are detected during the later stages of the production of end products.
3. Development of new technical processes for the production units that significantly improve the flatness properties of grain-oriented steel. Before the implementation of this innovation, the final quality could be improved only through additional operations that would add to the cost of this type of product.

We believe that efforts to optimize the Group's business processes, reducing the consumption of resources and materials, improving operational efficiency, cutting production costs and improving product quality, lie at the heart of our success and, ultimately, will allow the Company to strengthen its leading position in the industry.

Product liability

Studies carried out by the Group, alongside regular consultations with key customers, help us to understand developing trends in consumer sectors and customer needs. They also guide us in the development of new high-quality products and the adaptation of our existing product line. Our innovations help customers to improve the quality of their products and services and, ultimately, enable them to strengthen their position on the sales market.

Construction

The construction sector is a key sales market for the Group. In 2012 the construction sector and infrastructure development accounted for approximately 80% of the Group's Russian sales. In recent years, the Group has developed the production of galvanized steel (based on hot-rolled steel) with a gauge of 2.5–4.0 mm, in order to expand its presence in this market. Our technology allows us to produce galvanized steel with high ductility and high strength, a product that is in great demand in the construction industry but which has not previously been manufactured in Russia. NLMK has also

developed a technology for continuous hot-dip galvanizing of cold-rolled steel with a gauge of 0.22 – 0.29 mm. This allows us to obtain hot-rolled steel sheet, which was previously produced in Russia only by using an electrolytic galvanizing process.

Energy

NLMK is the industry leader in the production of high-tech electrical steel for the energy and machine-building sectors. The rapid development of consumer sectors imposes new requirements on the quality of grain-oriented and non-grain-oriented steel, which must be met in order to remain competitive. A number of innovative patented solutions, including decarburizing, nitriding and laser treatment of grain-oriented steel sheet, will improve the productivity of the transformers that use our products, reducing specific energy losses to 15%.

A technology to produce a qualitatively new product developed by NLMK engineers – nanostructured high-permeability grain-oriented steel – is being introduced successfully at the Lipetsk site. The quality of this steel is superior in a number of respects to the best products of a similar type available on the international market. After this technology has been adapted for manufacture by NLMK, the production of high-permeability grain-oriented steel will be introduced at the VIZ-Steel site, which is already carrying out the preliminary work and modernization of its production units necessary for the new product to be released.



For more information on our transformer steel production upgrades

The automotive industry

The expansion of the Lipetsk site's secondary metallurgical capacities has allowed us to develop new products with mechanical properties that will help automotive manufacturers to improve the reliability and safety of vehicles, reduce their weight and therefore decrease their fuel consumption. We have mastered the production of high-strength, low-alloy steels (hot-rolled S700MC grade steel, as well as cold-rolled and hot-rolled class HSLA grade steel), which reduce the amount of steel that is needed for vehicle bodies.

NLMK has successfully implemented the production of high-strength steels (cold-rolled BH-effect steel and cold-rolled and galvanized steel sheet based on IF steel), which provide an optimal balance of strength and adaptability when stamped.

Finally, the use of modern technology has allowed us to master the production of dual-phase steels, which combine high ductility and strength. NLMK Europe's sites, which cooperate closely with automotive manufacturers, are expanding their production of S700MC, HCT600X, HX220Y, and HC260Y grade rolled steels, which are used in machine building, including in the automotive industry.

Machine building

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

To strengthen its position in this market, NLMK DanSteel has installed a new 4.2 m plate mill. This will permit significant expansion of NLMK Europe Plate's product mix. The new mill can produce a wide range of sheet with gauges of 5 to 200 mm and a width of up to 4,000 mm; this provides the Group with access to promising markets where it has not previously had a presence. For example, NLMK now supplies products for the construction of offshore oil and gas platforms and offshore wind power plants.



For more information on our new mill at NLMK DanSteel

In addition, NLMK Clabecq has continued to implement measures to further expand its product mix, including the development of quenched and tempered (Q&T) heavy plate production technology. The new quenching and tempering unit, which was commissioned in 2011, has allowed the Company to produce specialized niche steels in several grades:

- Quard® – a group of abrasion-resistant steels.
- Quend® – a group of high yield strength steels.

In 2012, technology for producing Quard® 400 grade plates with a gauge of between 4 and 40 mm and Quard® 450 grade plates with a gauge of up to 20 mm was fully implemented. In Q4 2012, we began testing the production technology for Quard® 450 grade steel plate with a gauge of up to 40 mm, and in Q1 2013, we are planning to begin industrial production of this unique product. We work continuously to improve the chemical composition of our steels by reducing the amount of harmful impurities and specifying the content of alloying elements; the process improves the performance properties of goods made from our products.

Quard® and Quend® plates are unique on the market, and in contrast to traditional heavy plates, enable buyers to reduce the weight and to increase the performance qualities of their manufactured goods. Quenched and tempered plates will be in high demand among the Group's niche consumers, including wind power facilities, offshore oil and gas drilling platforms and producers of abrasion-resistant machinery parts, thus allowing the Company to strengthen its position as a supplier of reliable, high-quality solutions for the machine building industry. These products are being brought to market at an encouraging rate; in 2012 sales of quenched and tempered plates reached 29,000 tonnes.



More information is available at: <http://www.quard.me/> and <http://www.quend.me/>

Semi-finished products

A range of equipment for secondary metallurgy, which has greatly expanded the range of grades under production, was introduced in 2012 at the main production facility in Lipetsk. NLMK now has the ability to produce new kinds of rolled products and commercial slabs with ultra-low sulphur (less than 0.001–0.002%) containing more accurate quantities of alloying elements and can now improve the quality of steel in terms of non-metallic impurity content.

Due to changes in the production route, the Lipetsk site is now able to supply all of our European divisions with semi-finished products, including slabs for the Quard® and Quend® product lines, which must meet very strict chemical and physical property requirements.

The Lipetsk site will continue to modernize its steel casting equipment. The introduction of new continuous casting machines has allowed NLMK to begin production of slabs with a gauge of up to 355 mm. The Group delivers unique slabs to NLMK DanSteel, as well as to manufacturers of large-diameter pipes, including those based in Russia.

A customer-centred approach

NLMK is continuously improving both the technical characteristics of its products and the quality of its customer service. We aim to be the preferred supplier of steel products for our customers and we are focused on their needs and expectations.

The Group regularly organizes meetings with customers, conferences and site visits in order to study and clarify customer requirements. This customer-centred approach allows us to expand our customer base by attracting new clients and to quickly find effective ways of solving problems with existing partners. Moreover, productive cooperation with our customers is a valuable resource that allows us to identify possible areas for Group development and product improvement.

NLMK assesses customer satisfaction on an annual basis. The main evaluation criteria are the technical characteristics of products, the level of customer service, and the meeting of delivery deadlines. By assessing the level of customer satisfaction, we are able to identify bottlenecks in our relationships with our customers and we become better equipped to solve problems quickly and to adapt our products to precisely meet customer needs. According to the results from 2012, NLMK Group earned an overall customer satisfaction score of 8.4 out of 10 ('good').

The Company intends to continue its practice of actively cooperating with consumers by further improving its information exchange system and the quality of its products.

Monitoring targets delivery



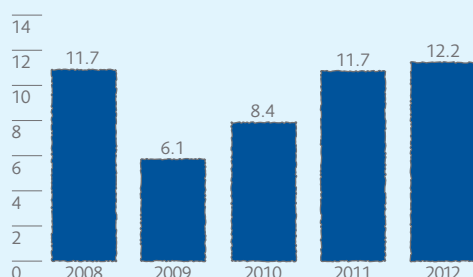
"NLMK Group has a unique vertically integrated value chain, with sites located on three continents and a presence in all key markets. Alongside growth in the scale of business, our leading position has important quality characteristics, namely high efficiency and the stability of results. Efficiency is our core value. It characterizes every single one of our business processes, including

Key financial performance indicators

Revenue (US\$ bn)

12.2

+4%



Definition

Funds obtained by NLMK through sales of products and services.

Comments

The total amount of revenue varied due to the influence of certain factors, including:

- An 18% year-on-year sales volume increase.
- A 20% rise in high value added product sales.
- An upturn in the share of sales on the Russian market experiencing more favourable market conditions.

Outlook for 2013

Variations in revenue will depend largely on the market situation.

NLMK plans to increase the manufacture of high value added products and expand its presence on the Russian market, which should have a positive influence on sales revenues.

Strategic objectives



EBITDA per tonne (US\$)

125

-29%



Definition

Company profit per tonne of product sold.

Comments

The main cause of the decrease in this indicator was a decline in product prices not entirely compensated for by a fall in the prices of raw and other materials.

Outlook for 2013

We expect that in 2013, the Group will maintain a high level of profit per unit, although this will depend to a great extent on the market situation in the industry.

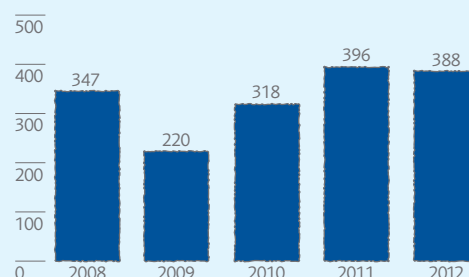
Strategic objectives



Slab cash cost (US\$/t)

388

-2%



Definition

Financial expenditure borne by the Company to produce 1 tonne of Basic Oxygen Furnace (BOF) steel in Russia (on a consolidated basis).

Comments

NLMK is one of the lowest-cost steel producers in the world. The Group's leading position is based on the fact that it is largely self-sufficient in key raw materials and that it uses modern technological equipment. The main reason for the decrease in production costs in 2012 was the optimization of our technology and the fall in raw material prices in comparison with 2011.

Outlook for 2013

The average level of this indicator may be subjected to downward pressure due to rising raw materials prices. Nevertheless, the Company will retain its status as one of the most cost-efficient steel producers in the world.

Strategic objectives



production, sales, procurement, staff training, finances and decision-making. By analysing the trends in our key performance indicators, we can evaluate the efficiency of our business as a whole, including how well it uses its resources and to what extent it is integrated with the external environment."

Oleg Bagrin

President and Chairman of the Management Board

The Group uses several key financial indicators, as well as indicators of operational results and progress towards corporate responsibility goals, to evaluate how effectively the current strategy is being implemented. These indicators are evaluated both annually and quarterly throughout the year. The results are assessed by analysing the indicators over time, with the definition of a target for the reporting period, as well as by comparing them with the average industry indicators.

Strategy

The key performance indicators are used to evaluate the achievement of strategic goals and are published annually.



For more information on our strategy

Risk

The indicators may be influenced by various categories of risks, including commercial, industry-related, investment, operational, and corporate responsibility risks.



For more information on our risk management

EBITDA margin (%)

16 **-3.6 p.p.**



Definition

This indicator characterizes the Group's profitability before deduction of interest, profit tax, and amortization.

Comments

The decrease in cost-effectiveness occurred as a result of the decline in steel product prices, which was partially offset by the rise in sales volumes and the reduction in production costs.

Outlook for 2013

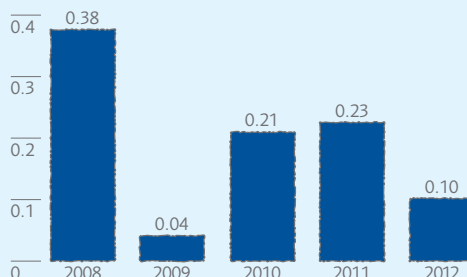
We expect that, in 2013, NLMK will maintain a high level of profitability, although this will depend to a great extent on the market situation in the industry.

Strategic objectives



Net income per share (US\$)

0.10 **-56%**



Definition

Group income per share.

Comments

Net profit decreased, by and large, due to the downturn in the profitability of the core business as a result of unfavourable conditions on key sales markets.

Outlook for 2013

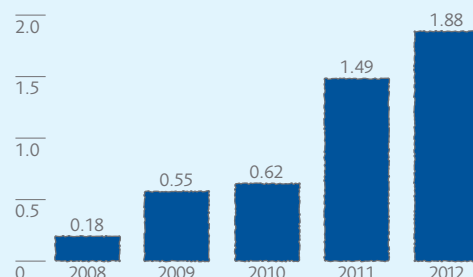
Market conditions will influence the trend of this indicator in 2013. However, we do not expect a sharp decline in income per share.

Strategic objectives



Net debt/EBITDA

1.88 **+26%**



Definition

Debt ratio, corrected according to the level of funds and annual EBITDA.

Comments

The rise in this indicator was linked to the fall in the EBITDA, owing to the disadvantageous market situation in 2012.

Outlook for 2013

The management will strive to maintain a low level of debt in order to preserve a stable financial situation. Following the end of the production capacity build-up phase, the Company anticipates a decrease in capital investment. We predict that this will allow us to use funds to reduce the Company's debt burden.

NLMK has established the target level for this indicator to be around 1.

Strategic objectives



Monitoring targets delivery (continued)

The Group also regularly monitors many operational and non-financial indicators. In combination with the financial indicators, these allow us to evaluate the extent to which our strategic priorities and long-term goals – including the goal of sustainable development – are being implemented.

Growth in productivity at Novolipetsk

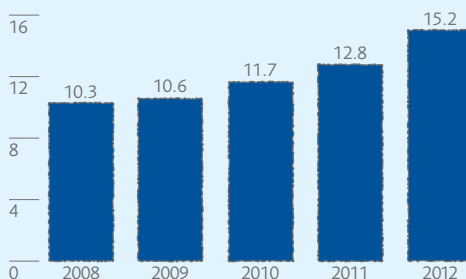
The ongoing upgrade of our main production assets and the implementation of new large-scale capex projects at Novolipetsk have enabled the Group to achieve a substantial increase in productivity at the plant. Over the past ten years, productivity at the Group's key facilities has increased 2.2 times, from 185 tonnes of steel/person in 2002 to 406 tonnes in 2012.

This significant increase is also explained by the implementation of a programme to improve production efficiency coupled with efforts to optimize both the headcount and the company's structure. NLMK is striving to become one of the world's leading steelmakers in terms of productivity.

Key operational performance indicators

Steel product sales (mt)

15.2 **+18%**



Definition

Total consolidated sales volume for steel products.

Comments

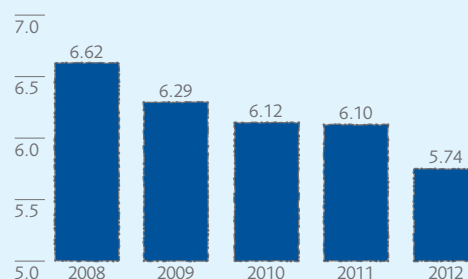
The increase in this indicator was the result of the installation of new equipment and a rise in capacity utilization, including at the Company's foreign assets.

Outlook for 2013

We expect the high sales volumes to continue; however, the conditions on the global steel products market may influence this indicator.

Specific energy intensity (Gcal/t)

5.74 **-6%**



Definition

Total energy consumption at the Lipetsk site to the volume of BOF steel produced.

Comments

As a result of the implementation of energy efficiency measures, the specific energy intensity level has been falling consistently.

Outlook for 2013

The implementation of the measures planned as part of the Technical Upgrade Programme will in future allow us to approach the levels of the leading world steel producers in specific energy intensity.

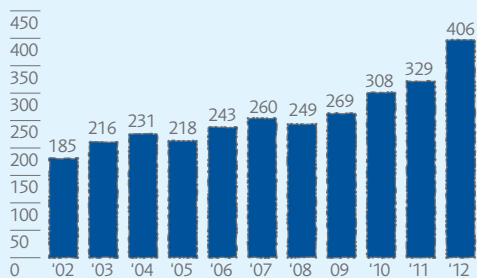
Strategic objectives



Strategic objectives



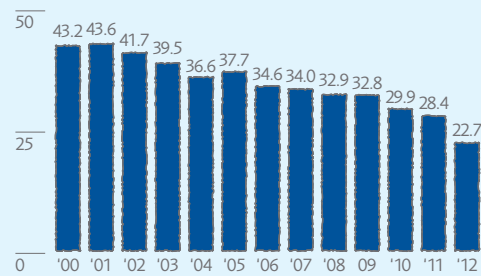
Growth in productivity at Novolipetsk (t/person)



Significant decrease in air emissions at Novolipetsk

Since 2000, when the technical upgrade plans were initiated at the main production site in Lipetsk, more than 280 projects to reduce atmospheric emissions have been implemented, at a cost of nearly RUB 17 billion. As a result, our environmental footprint has been reduced by 22% and specific emissions decreased by almost 50% to 22.7 kg/t. The total amount spent on implementing environmental protection measures was approximately RUB 22.5 billion.

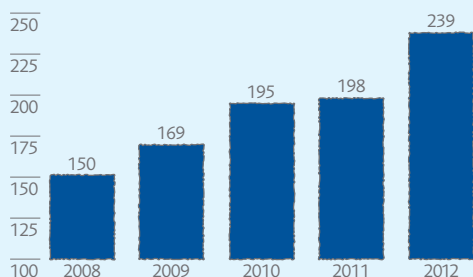
Specific air emissions at Novolipetsk (kg/t)



Key non-financial performance indicators

Labour productivity (t/person)

239 **+20%**



Definition

Steel production volume per employee.

Comments

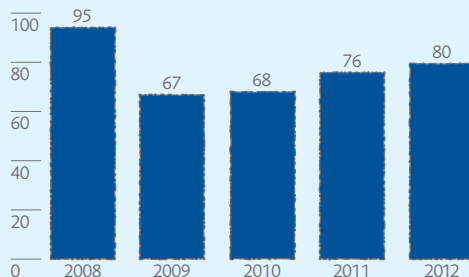
The positive change in this indicator was the result of an increase in production efficiency.

Outlook for 2013

We expect a continuation of the positive trend in labour productivity due to an increase in the plant workload and continued implementation of headcount optimization measures.

Number of accidents

80 **+4**



Definition

Number of accidents at the Group's Russian assets per year.

Comments

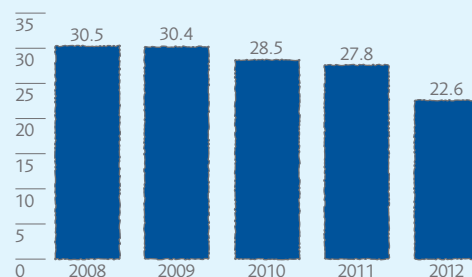
The rise in this indicator is related to the substantial growth in production volumes and construction and assembly work associated with the commissioning of new facilities.

Outlook for 2013

The Group will continue to improve its occupational health and safety system. The Group's management makes every effort to minimize the number of accidents on the production floor.

Specific emissions (kg/t)

22.6 **-19%**



Definition

Atmospheric emissions per tonne of steel.

Comments

The decrease in atmospheric emissions is due to the installation of new, environmentally safe equipment, the implementation of new technologies, and consistent investments in environmental safety.

Outlook for 2013

In 2013, environmental projects and measures to improve technological processes will be maintained, enabling the Company to continue to reduce its negative impact on the environment, including the reduction of specific atmospheric emissions.

Strategic objectives



Strategic objectives



Strategic objectives

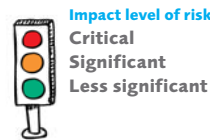


Efficient risk management





"As with any major company, NLMK is exposed to a number of different risks. It is the goal of independent risk management and effective internal controls to permit the management decision making process to be more transparent and reliable, thereby enabling the Company to become more effective in achieving its strategic goals."

Benedict Sciortino
Chairman of the Audit Committee,
Independent Director



Commercial risks

Description	Mitigation measures	Management in action	2012 developments
<div></div> <div><h3>Purchase of raw and other materials</h3><p>Among the most significant risks for the Group are those connected with the purchase of raw and other materials.</p><p>The supply of raw materials is susceptible to risks dependent upon the specific conditions in each segment of the raw materials market.</p></div>	<p>The Group is largely self-sufficient in the supply of raw materials. A strategy to develop the Group's own raw materials base is the main measure for minimizing risk in this area. Today, the Company is completely self-sufficient in iron ore concentrate, flux, coke and, to a large extent, ferrous scrap.</p> <p>Over the last few years, the Group has been conducting a consistent policy of supplier diversification.</p> <p>Current practice for the purchase of raw and other materials and equipment includes the following: market analysis, tendering and negotiating with suppliers to conclude long-term contracts and set purchase prices. Trading House NLMK is part of the Group, and partially centralizes the commercial functions of the Group's companies. The Company thereby minimizes expenditure on purchasing and optimizes transport costs.</p>	<p>The production cost of US\$ 388 per tonne of slabs is one of the lowest in global Metals & Mining.</p>	<p>An increase in scrap self-sufficiency to 85%.</p> <p>A reduction in the consumption of imported coking coal.</p>
<div></div> <div><h3>Supply of finished goods</h3><p>Other significant risks to the Group are those associated with product sales within the sales markets. Product sales are dependent upon several factors:</p><ul style="list-style-type: none">– The cyclical nature of demand for steel products.– Risks resulting from the price volatility of steel products on international and domestic markets.– Macroeconomic risks on foreign and domestic markets, including economic growth rates, inflation expectations and prices in the energy market.– Introduction of quotas and other trade restrictions in major export markets.– Intensifying competition from manufacturers, including steel producers in developing countries.</div>	<p>The impact of this risk on the Group's sales has been reduced by:</p> <ul style="list-style-type: none">– A high level of market and product diversification.– A flexible sales system that allows goods to be redirected to more advantageous sales markets.– Conducting export sales through trading companies.– Working effectively with purchasers to secure acceptable shipping and payment conditions.– The presence of rolling capacity in European and US markets, allowing us to process NLMK's steel slabs.	<p>An 18% increase in sales of steel products, which reached 15.2 mt in 2012.</p>	<p>An increase in the share of the less volatile HVA products.</p> <p>An increase in the share of sales in the Russian market.</p> <p>Product mix diversification.</p> <p>First slab sales to large diameter pipe manufacturers.</p>

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

Risk management policy

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

Risk management process

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

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



Industry-related risks

Description	Mitigation measures	Management in action	2012 developments
<div> <div></div> <div> Risks connected with cooperating with natural monopolies within the Russian Federation </div> </div> <p>Risks connected with the transport of raw materials and semi-finished products to production facilities, as well as product delivery to consumers.</p> <p>Major energy resources (natural gas, electricity) are provided by natural monopolies within the Russian Federation. This increases tariff regulation risks in the medium-term.</p>	<p>The Group is able to reduce its logistics risks due to a long-term contract with the Independent Transportation Company (NTK), which, in conjunction with Freight One (PGK), provides an uninterrupted supply of raw materials and shipping for the Group's finished products within Russia.</p> <p>The Group makes use of a mechanism for purchasing resources on the free market and also has a policy of increasing self-sufficiency in energy resources. The Group is implementing several projects aimed at lowering the consumption of natural gas and electricity. For the purpose of reducing regulatory and normative risks in the field of energy, Group representatives are involved in the work of permanent advisory bodies and public organizations.</p>	<p>Logistics risks are significantly lowered as a result of the Group's long-term contract with NTK (with a price formula for services) for the transport of finished products and raw materials.</p> <p>The Group's own energy generating capabilities (running on blast furnace by-product gases) partially cover the energy needs of the main production site.</p>	<p>An increase in energy self-sufficiency at the Lipetsk site to 53%.</p> <div> <div>39</div> <div>For more information on the increase in our energy self-sufficiency</div> </div>

Operational risks

Description	Mitigation measures	Management in action	2012 developments
<div> <div></div> <div> Technological risks </div> </div> <p>Technological risks involving the loss of property (or parts thereof) as a result of an accident at a production site, and reduction in revenue caused by production stoppages.</p>	<p>In order to minimize these risks, the Group's companies have put in place preventative measures intended to avert accidents and hazardous incidents on the production floor and to maintain a reasonable stock of work-in-progress and backup materials in case of an emergency work stoppage. Property is protected, alarm devices are installed and fire prevention systems are in place at the Company's facilities.</p> <p>NLMK's largest companies insure their proprietary assets with primary re-insurance in the major Western markets. To develop the most effective insurance programme and to ensure maximum protection, tenders are conducted to attract large international brokers. These not only provide optimal insurance rates but guarantee insurance payouts if an insured event occurs.</p>	<p>An absence of accidents that would cause long-term disruption to production.</p>	<p>An absence of major accidents over the last few years.</p>

Assignment of responsibility

As part of an integrated approach to risk management, the responsibilities of the main participants are assigned as follows:



Investment risks



Description

Project risks

Risks connected with the implementation of the Group's investment programme.

Mitigation measures

Detailed project development in the Technical Upgrade Programme. The major measures taken to reduce the impact of these risks are:

- Careful study of the markets and product end-user requirements with the aim of adapting the development programme to their needs.
- Regular monitoring during the implementation of the Investment Programme by the NLMK Group's Investment Committee and Strategic Planning Committee.

Management in action

Notwithstanding the difficulties associated with the sales and financial markets over the past several years, the Company has continued to successfully carry out the Technical Upgrade Programme.

In 2012, several large investment projects were completed at the Lipetsk site, at Stoilensky, and at other Group facilities.

2012 developments

After the completion of key projects that are included into Stage II of NLMK's Technical Upgrade Programme, capex levels are reduced, and, consequently, the impact of this risk becomes less critical.



For more information on our investment strategy

Financial risks



Description

Currency exchange risks

Risks associated with fluctuations in the currency exchange rates. The Company receives the majority of its revenues from exports in foreign currency, while the majority of its expenditures is denominated in roubles.

Mitigation measures

In order to minimize foreign currency risks, the Group's export programme is formulated taking into account possible (forecasted) fluctuations in the major currencies. When concluding foreign trade contracts, the Group seeks to ensure balanced currency transactions: payments in foreign currency are covered by the receipt of export revenues in the same currency.

The Group uses derivative instruments to manage currency risks in accordance with its agreed policies and its hedging strategy.

Management in action

In 2012, the Board of Directors approved the financial risk hedging strategy. Its implementation reduced the negative impact of increased exchange rate volatility throughout the year. NLMK plans to update its hedging strategy annually in order to adapt it to changing conditions on the financial markets.

2012 developments

In 2012, NLMK's geography of operations expanded and the cash flow currency breakdown became more diversified, thus restricting the impact of currency risks.

Implementation of NLMK's hedging strategy reduced the negative impact from currency rates on the Company financials.



Risk of decrease in the Group's investment attractiveness

Risks associated with the market's evaluation of the Group.

In order to minimize this risk, the Group has a balanced development and information policy. The Company regularly carries out measures to increase information transparency, allowing professionals from the investment industry to make real-time evaluations of the Group's current status. The management regularly provides commentary regarding important steps taken by the Group, and provides detailed information on the business.

Details of all significant events are posted on the Group website; regular meetings with investors and investment analysts.

In 2012 NLMK received several awards for external communications, confirming its commitment to openness and transparency.

Financial risks (continued)

Description

Credit risk

The Group delivers some of its goods on post-payment terms, which means that there is a risk of non-payment by contracted clients.

Mitigation measures

For risk management purposes, the Group analyses its contracted clients, based upon a risk evaluation scoring model, and also uses various transaction security tools.

At the Lipetsk site, a credit risk management protocol has been implemented which includes a risk evaluation of contracted clients, estimate, and limit control. The protocol allows balanced decisions to be made with the aim of minimizing the risk of non-payment for deliveries by contracted clients. In 2013, we plan to apply this protocol at all of the Group's major subsidiaries.

As part of the risk management protocol and the Group's standard for preventing overdue receivables being accrued, the Lipetsk site has a permanent commission on accounts payable and receivable. Representatives of various services (internal audit, security, the legal department, and others) sit on this committee.

Management in action

The level of overdue receivables has not exceeded 1% of the total amount of accounts receivable over the past two years.

2012 developments

An expansion of the client base with no significant issues for the Company, with timely payments for supplied goods.

Corporate responsibility risks

Description

Risks related to occupational health and safety

Risks associated with the occurrence of accidents and incidents that cause injury to employees, and with occupational illnesses.

Mitigation measures

All of the Group's production facilities have developed and implemented occupational health and safety standards. Employees are provided with the latest personal protection and hygiene equipment.

Management in action

The Company's activity in the field of occupational health and safety complies with the OHSAS 18001 international standard.

2012 developments

The financing of occupational safety measures amounted to more than US\$ 20 million in 2012.

A reduction in the number of serious and fatal accidents, taking into account a 25% increase in steel output.

Personnel risks

Personnel risks include the possibility of undesirable incidents relating to employment or the social sector.

In order to avoid personnel risks, the Group has developed a set of corporate human resource standards regulating recruitment and dismissal, training, professional evaluation procedures, employee reward schemes, youth employment, in-company implementation of social health programmes, staff social security issues, and so on.

The Company strives to incentivize its employees, to motivate them to achieve better results, to improve their skills, and to provide opportunities for personal and professional growth.

More than 47,000 staff underwent professional training in 2012.

Social risks

The occurrence of undesirable socioeconomic incidents in regions where the Group operates.

The Group implements many social programmes in the regions where it operates. These are aimed at supporting sport, culture, healthcare and education, as well as charity projects.



For more information on our community engagement

In 2012, the Company's Russian assets invested approximately US\$ 12 million into charity projects.

Environmental risks

Environmental risks occur during the construction and operation of production sites, when there is a likelihood of environmental damage.

In order to reduce environmental risks, we constantly monitor the chemical content of atmospheric emissions and wastewater discharge. The Group is also systematically reducing its impact on the environment through commissioning new, environmentally safe technological equipment and modernizing its existing equipment.

The Group's companies also hold third-party liability insurance in case of accidents during the operation of hazardous production sites.

The recycling rate exceeds 100%.

There is zero wastewater discharge at the Lipetsk site.

A reduction in the specific adverse environmental impact rates.



For more information on our environmental projects

Reputational risks

A decline in customer satisfaction with product quality and delivery times.

The Company monitors customer satisfaction with product quality and delivery times on a regular basis.

A comprehensive approach to monitoring the quality and order delivery times is used. This allows NLMK to maintain a high level of customer satisfaction.

In 2012, the Group's overall evaluation of customer satisfaction with product quality and organization came to 8.4 points on a ten-point scale.

Section III:
Performance review

In this section:

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We are Efficient & sustainable

Efficiency and safety have always been at the heart of our business.

- Years of investment in the acquisition and development of assets have enabled the Group to achieve outstanding levels of cost efficiency. Our steel cash cost in 2012 was an average of US\$ 388 per tonne, which is well below world averages. According to the ranking compiled by the World Steel Dynamics agency, NLMK's integrated production in Russia has been one of the most efficient operations in the world for a number of years.

- For many years, we have invested in environmental projects that reduce our negative impact on the environment in the regions where we operate. By completely stopping waste water discharge and reducing air emissions almost two-fold, we have been able to comply with the most stringent international environmental standards.

- We are creating a safe working environment and improving our processes by investing in staff development, thereby minimizing risks and preventing accidents.

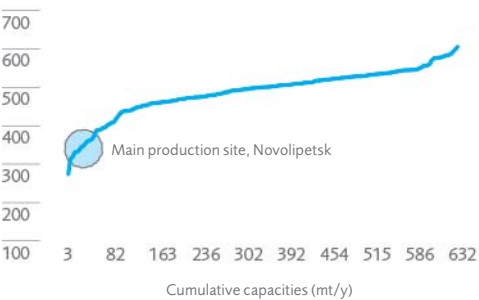


For more information on
our financial performance



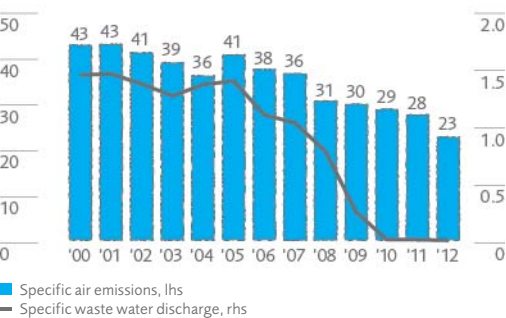
For more information on
our corporate responsibility

Steel cash costs globally (US\$/t)

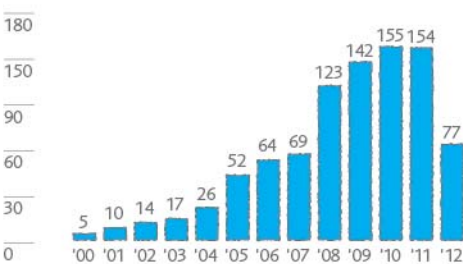


Source: World Steel Dynamics

Air emissions and waste water discharge (kg/t)



Environmental investments (US\$ m)





Delivering remarkable growth in a challenging market environment



"The Group's sales strategy has once again demonstrated its flexibility and effectiveness. In 2012, NLMK's sales increased by 18%, while the world steel market grew by just 1.4% compared with the previous year.

We successfully took advantage of the favourable conditions on the Russian market, where construction was the main driver behind the growth in the demand for steel. The construction industry accounted for 69% of NLMK's sales in Russia. At the same time, the diversification of our product portfolio and our direct access to clients in the major US and European markets allowed us to continue to realize the Group's potential for growth and strengthen our position on overseas markets."

Dmitry Baranov
Vice President, Sales

Group sales

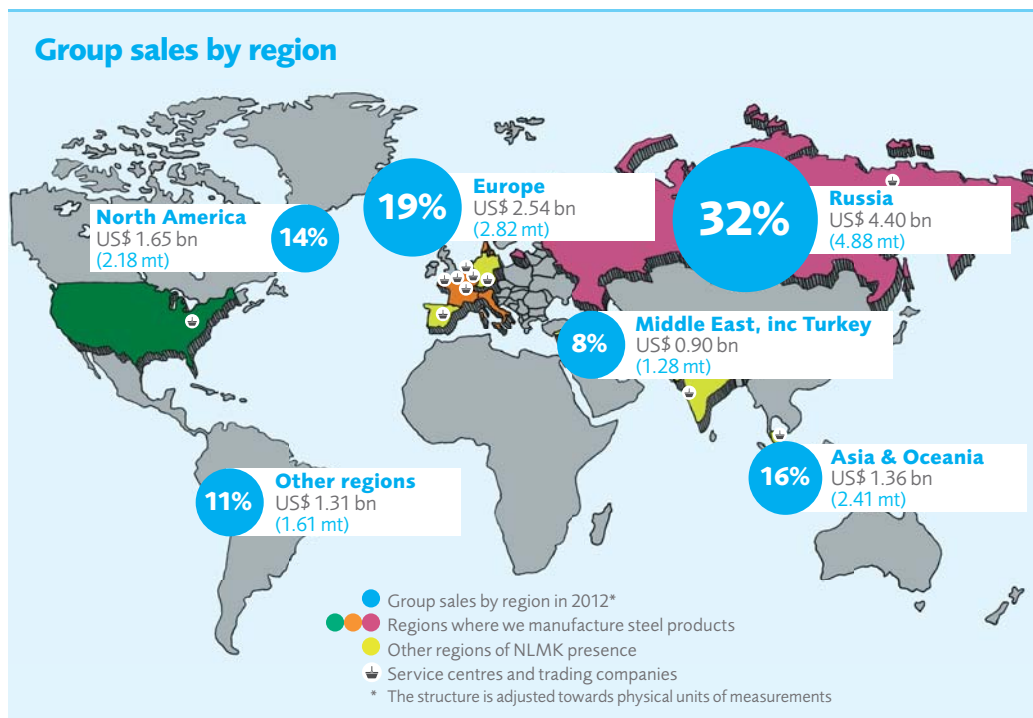
NLMK's sales strategy is based on building effective product sales channels, developing an active and flexible marketing strategy and effectively managing human resources.

The Russian market remains key for the Group but we are also seeking to develop sales of niche, high value-added products and to maximize sales volumes to ensure that our capacity is used efficiently.

2012 sales

Despite the instability in the global steel market, with high price volatility due to low demand and surplus production, the Group increased sales by 18%, maintaining maximum capacity utilization. This was possible because of NLMK's balanced business model, producing steel in low-cost regions and manufacturing finished products close to our main customers.

In 2012, sales rose to 15.2 mt (+18% y-o-y). Sales of finished products reached 10.6 mt (+22% y-o-y), including HVA products amounting to 5.4 mt (+20% y-o-y), while growth in the sales of semi-finished products was 10% y-o-y. The significant growth in sales of finished products, including high value-added products, is a result of the mid-2011 consolidation of rolling assets in NLMK's key export markets, as well as to an increase in sales of finished products manufactured at the Lipetsk site.



Sales in our local markets

In recent years, through the implementation of a balanced growth strategy, NLMK has become a global player on the international steel market. The Group's assets, spread over three continents, provide a unique production chain that forms the basis of the Group's primary competitive sales advantage: geographical and product flexibility.

The successful integration of its European and American assets into the production and sales chain has allowed the Group to turn semi-finished products, manufactured at low cost in Russia, into high value-added products.

Russia

In 2012, in the midst of a weakening market situation and at a time of high price volatility in overseas markets, NLMK maximized its presence on the Russian domestic market, which saw significant growth in key sectors for the Group: construction, infrastructure and the automotive industry.

In 2012, NLMK Group sales in Russia totalled 4.9 mt (up 14% compared with 2011). The Russian market accounted for 32% of total product sales. The main reason for the growth in sales was an increase in the supply of high value-added products and long products. Sales of HVA products increased by 10% in 2012 compared with 2011, to 2.2 mt. NLMK traditionally occupies a leading position among Russian manufacturers of premium products. The Group's share of the Russian cold-rolled steel sector in 2012 was 24%; it accounted for 22% of the pre-painted sector and 17% of the galvanized sector.

The growth in consumption of long products by the Russian construction sector in 2012 exceeded the expectations of those involved in the industry. Construction activity continued to be supported by favourable financial conditions. Consumption of re-bar in Russia increased by 19% in 2012.

NLMK's sales of long products and metalware went up by 17% to 1.7 mt. Sales of re-bar as a share of total sales volumes grew by +10%, while metalware sales increased by 25%. Sales of wire rod decreased by 19.6%, principally due to the decision to redirect a significant proportion of product toward the manufacture of metalware, a higher value-added product.

At the end of 2012, NLMK's share of the Russian re-bar market was 17%, in line with the previous year's results. Following the launch of production at NLMK Kaluga in mid-2013, we expect the Group's share of the re-bar market to increase. NLMK secured 22% of the metalware market (+2 p.p. y-o-y).

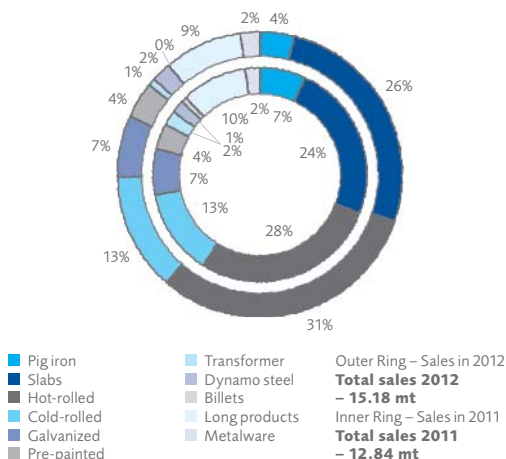
The Group's products are supplied to a wide range of customers. The majority of NLMK's sales are to service centres and steel processing companies (61%), followed by the construction industry (19%).

The Central Region remains NLMK's key market within Russia, accounting for 52% of domestic sales. Other important sales markets include the Volga (14%), North Caucasus (9%), and the Urals (9%) regions.

Steel product sales (mt)

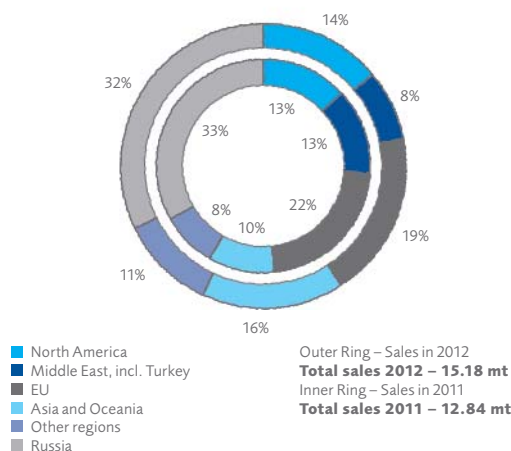


Sales by product in 2011-2012



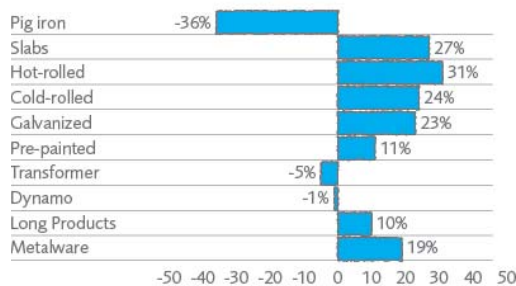
Note: the structure is adjusted towards physical units of measurements

Sales by region in 2011-2012



Note: the structure is adjusted towards physical units of measurements

Sales structure change 2012/2011

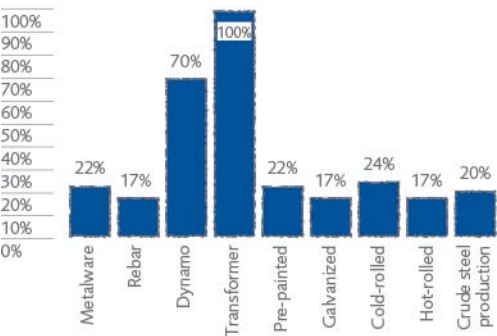


NLMK supplies steel products to Russian pipe manufacturers

In July 2012, NLMK concluded a long-term contract with Vyksa Steel Works (part of the United Metallurgical Company (OMK)) for the supply of continuously cast slabs. These will be rolled into plates at the VMZ Mill-5000 (MKS-5000), which the company will then turn into large-diameter pipes for mainline oil and natural gas pipelines.

NLMK's strategic partnership with OMK facilitates the import substitution of quality rolled plates for the manufacture of pipes on the Russian market, which will allow the Group to strengthen its position as one of the leading suppliers of high-quality products to the Russian pipe sector.

NLMK Russian market position in 2012



Europe

Slowing GDP growth, a reduction in industrial production and debt problems had a negative effect on the European steel market in 2012. Compared with 2011, the production of steel fell by 4.7%, while apparent use fell by 8.6%.

However, Europe remains one of the key sales markets for NLMK products. The integration of European rolling assets in mid-2011 provided the Company with new opportunities to promote its products to European customers and as a result, Europe accounted for 19% of sales in 2012.

NLMK supplied 2.82 mt of steel products to the EU market in 2012, the majority of which were high value-added products. High value-added products accounted for 57% of sales in the European market (compared with 44% in 2011). The growth in sales of HVA products is a result of the integration of European rolling assets into the Group. The reduction in sales of semi-finished products is due to the fact that, in 2012, the majority of these were turned into finished products. In 2012, a total of 1.9 mt of slabs was supplied internally to the Group's European assets.

Key customers for the Group's products in the EU thick plate market are the machine building and shipbuilding industries, 'yellow goods' manufacturers and the wind power industry. The main customers in the flat products sector are the automotive and machine building industries and pipe manufacturers.

31 For more information on the European market developments

North America

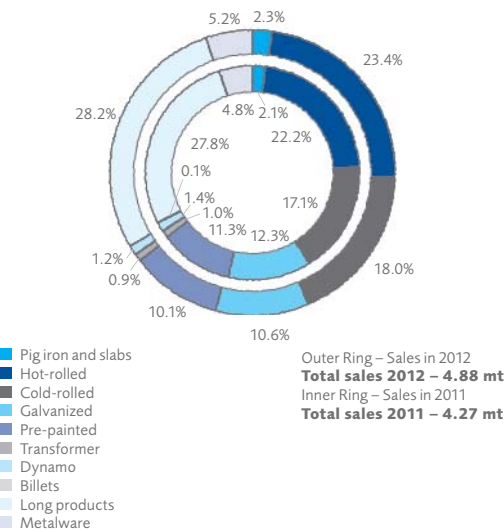
The North American market saw some economic recovery during 2012, with a slight growth in the demand for steel compared with 2011. With regard to prices, a downward trend was observed: prices for hot-rolled coils dropped 11% compared with 2011 while prices for cold-rolled and galvanized steel fell by 10%.

In 2012, the Group supplied 2.18 mt of steel products to the American market, increasing sales by 26% y-o-y. North America accounted for 14% of NLMK's consolidated sales in 2012 (13% in 2011). The increase in sales is explained primarily by the consolidation of a range of US assets into the Group in mid-2011.

American sales were principally to the automotive, heavy machine building and pipe manufacturing industries and also to service centres.

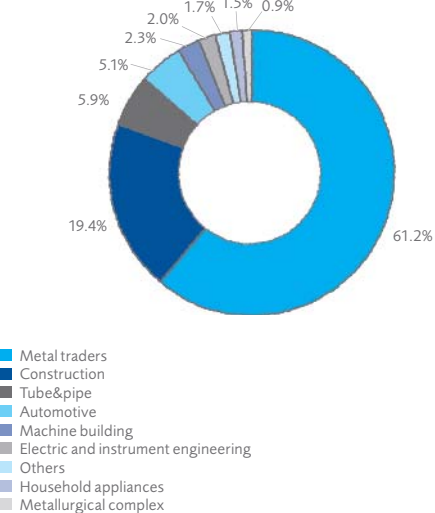
31 For more information on the US market developments

Russian sales by product in 2011-2012



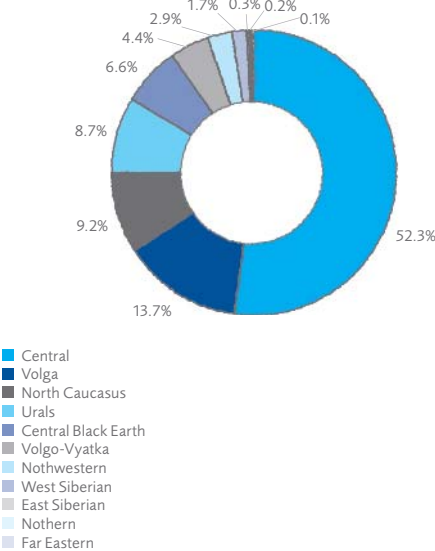
Note: the structure is adjusted towards physical units of measurements

Russian sales by industry in 2012



Note: the structure is adjusted towards physical units of measurements

Sales by Russian regions in 2012



Note: the structure is adjusted towards physical units of measurements

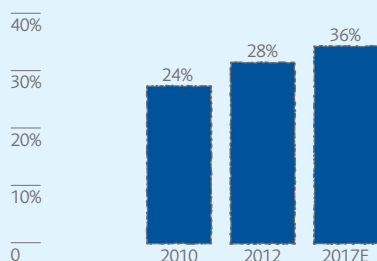
Automotive industry: one of the key sales markets for NLMK Europe Strip

One of the most important segments of the European market for the Group are car and truck manufacturers. Approximately 33% of all rolled products produced by NLMK in Europe are supplied to large automotive companies, their contractors and service centres (contract sales). We are proud to say that today Volkswagen, Daimler, General Motors, Opel, Fiat, Renault and many others make their cars using NLMK steels.

Commitment to innovation is the key driver of our success. We are constantly pushing forward, searching for new opportunities, developing new products that respond to the needs of our end-consumers to the fullest. One of the Group's most recent achievements is the production of high-strength steels with ultra-low carbon content, the so called IF (Interstitial Free) steels that are in high demand in the automotive sector. In 2012, NLMK Strasbourg signed a contract for the supply of IF steels to Renault. In the future, we intend to continue

expanding NLMK Europe Strip HVA product portfolio by increasing niche product output. Successful penetration into a market with such high quality demands was made possible by using semi-finished products (slabs) supplied by NLMK's Lipetsk site that had undergone large-scale upgrades of its steelmaking capacities.

NLMK Europe Strip share in sales to European automotive companies



The EU and USA

Increased buyer activity as a result of the need to restock and a rise in the price of raw materials could have a positive impact on prices in the first half of 2013. However, real demand will remain weak and growth in production will outstrip the expansion of demand, which could result in falling prices in both the EU and the USA in 2013.

We expect to maintain stable sales in these markets thanks to our effective sales policy, high product quality, and wide client base.

Other export markets

A favourable conclusion to the year in China, a market that was characterized by buoyant prices for steel products, has created the preconditions for higher price levels in the region at the beginning of 2013. If this trend is supported by the macroeconomic indicators, the markets in developing countries could prove more attractive to steel producers in 2013.

Based on this scenario of events, NLMK will continue to carefully monitor emerging opportunities to refocus sales on the most profitable markets, assisted by our balanced product portfolio and diversified sales structure.

Other export sales

While there was little business activity in the developed markets, NLMK increased its sales in regions where market conditions were more favourable. Thanks to a developed sales structure, a wide product mix and a stable position in niche sectors, NLMK was able to react quickly to a very volatile market and to increase its sales in Asia (up 81% y-o-y) and Central and South America (2.5 times higher than in 2011). This led to significant growth in the Company's other export sales figures, which increased by 30% y-o-y, totalling 5.3 mt.

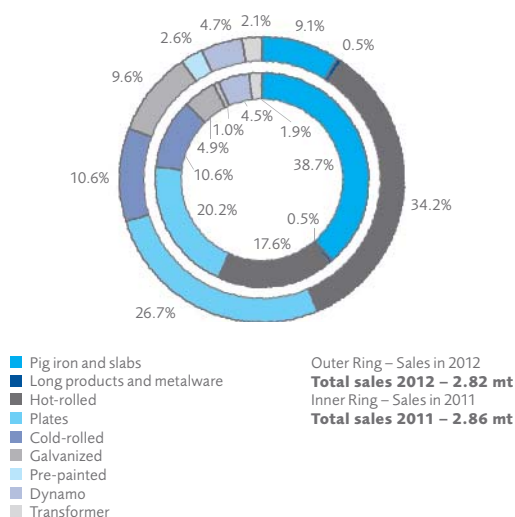
Outlook

Our local markets

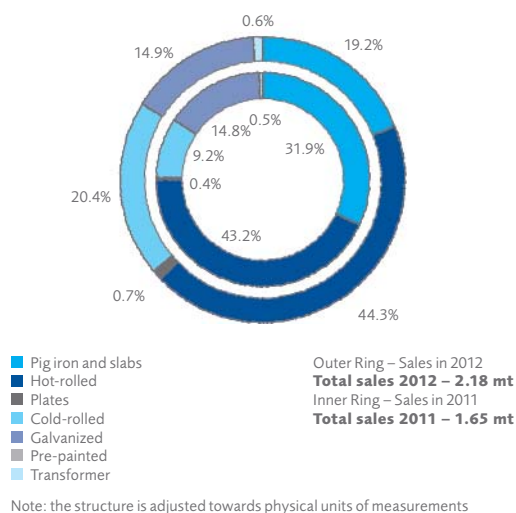
Russia

If official forecasts for macroeconomic indicators in 2013 are achieved – including 3.6% growth in GDP, a 3.2% increase in industrial production and a 6.5% rise in fixed capital investment – steel consumption in Russia could increase by 2-4% compared with 2012.

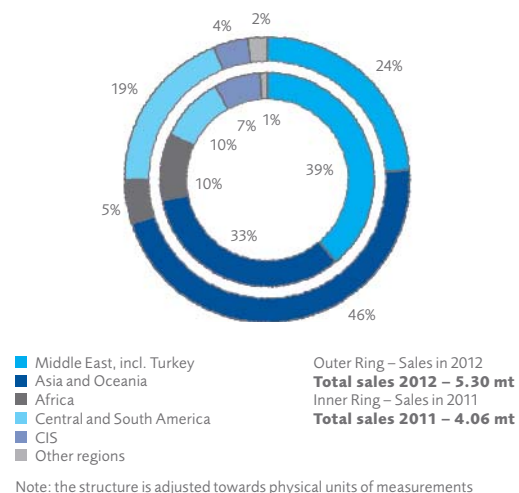
EU sales by product in 2011-2012



North America sales by product in 2011-2012



Other export sales by region in 2011-2012



Sound financial performance



"Despite the weakening market conditions, the NLMK Group managed to achieve a significant growth in sales, maintaining asset utilization rates at almost 100% as a result of its efficient low-cost steel production and sustainable business model. Our sales grew by 18% to 15.2 mt, thereby partially offsetting the slump in steel prices and driving the Group revenue up by 4% year-on-year to US\$ 12.2 billion.

EBITDA was down by 16% to US\$ 1.9 billion as a result of the lower prices for steel products. The EBITDA margin was down to 16% (as compared to 19% in 2011), however, it still remained one of the highest in the sector. Net profit was down to US\$ 596 million (-56% year-on-year).

As we finalized our large-scale capacity expansion projects, investments in 2012 decreased by 29% to US\$ 1.5 billion and in 2013, we expect these to further reduce to US\$ 1.0-1.2 billion. NLMK has a selective approach towards capex projects. Today priority is given to those projects that offer a high return on invested capital, aimed at minimizing costs and maximizing business efficiency.

A selective approach to investment and financial discipline provide an opportunity to continue to alleviate the Group's debt load in the medium term. In 2013, we are not planning on growing our absolute debt levels; borrowings will be used mostly to further improve the structure of our credit portfolio in terms of debt maturities and currency."

Grigory Fedorishin

Vice President for Finance and NLMK CFO

Key factors for 2012

In 2012, the global market situation was characterized by a high degree of instability, with growth slowing down in China, the debt crisis in the Eurozone and relatively low business activity in the USA. The growth rate of the world economy declined from 2.7% in 2011 to 2.3% in 2012. World industrial production growth slowed from 4.7% to 2.5%. With the weakening world economy, the demand for the products of the steel sector fell, causing a drop in steel prices. As a result, the global price in 2012 was lower than in 2011: world prices for hot-rolled coils, for example, declined by an average of about 15%.

Consolidated financial results

Key highlights

US\$ million	2012	2011	Change (%)
Revenue	12,157	11,729	+4%
Operating profit	1,133	1,666	-32%
EBITDA	1,900	2,254	-16%
EBITDA margin (%)	16%	19%	
Net profit	596	1,358	-56%
Net debt	3,574	3,355	+7%
Net debt/EBITDA	1.88	1.49	

Revenue

During 12M 2012, sales revenues were US\$ 12.157 billion, an increase of 4% year-on-year. Despite the significant deterioration in market conditions, the Group was able to offset the decline in steel prices by an 18% increase in sales, the redirection of sales into the more attractive price-wise Russian market and increased sales of high value added products.

The largest share of consolidated revenue came from the Steel Segment, at 58.8% in 2012 (down 10 p.p. year-on-year). The decline of the Steel Segment share in the revenue structure, in comparison with previous periods, was due to increased activity of the Foreign Rolled Products Segment following the acquisition of foreign rolling assets.

The revenue structure includes a significant proportion of high value added products: 41% in 2012 (up 1 p.p. year-on-year). This increase was due to the consolidation of foreign rolling assets into the Group and sales growth at the Lipetsk site. In 2012, slabs and hot-rolled steel accounted for 18% and 28%, respectively.

To maximize sales in a highly volatile global steel market, the Group reoriented its supplies towards more attractive markets, namely, the traditionally more premium Russian market (36.2% of total revenues in 2012) and the Asian market (11.2%). North America became another area of increased sales revenue (13.5%). Although the European market remains one of the most strategically important areas for the Group's sales, the problems in the Eurozone led to reduced demand and, consequently, to falling steel prices, which reduced the share of revenue from sales of steel products in that region (down 3 p.p. year-on-year).

Production costs

Production costs (excluding amortization) in 2012 increased by 9% to US\$ 8.494 billion due to the increase in sales (+18% over 2011), which was partially offset by lower prices for purchased raw materials and the programme initiated in the second half of 2012 to optimize production and operating costs.

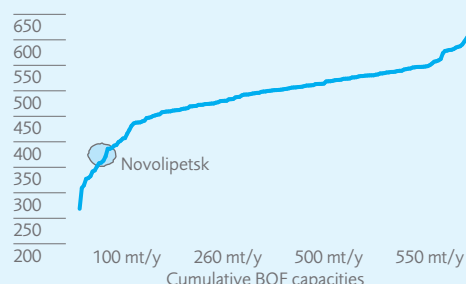
In 2012, slab cash cost at Novolipetsk was US\$ 388 per tonne (down 2% year-on-year). This was primarily a result of falling prices for coking coal (approximately 25% lower than in 2011) and pellets (down around 20%). With scrap prices also falling, billet production cost at NSMMZ fell (from US\$ 504 per tonne in 2011 to US\$ 460 per tonne in 2012); slab production cost at NLMK Indiana also fell.

Efficient control over steel cash costs

NLMK's main competitive advantage – its low-cost steel production – allows the Group to post a consistently strong financial performance. Its competitive edge is based upon a vertically integrated business model, efficient processes and technologies, skilled staff, and advanced production equipment. NLMK controls the entire value chain, from mining the ore to the final delivery of finished products to consumers. The consolidated cash cost of a tonne of steel at Novolipetsk in 2012 was US\$ 388, which is one of the lowest in the global steel industry.

Currently, NLMK is implementing a number of projects to further enhance the vertical integration, to reduce the Group's dependence on the third-party supply of raw materials to and optimize production costs. This will strengthen NLMK's status as one of the most efficient steel producers in the industry.

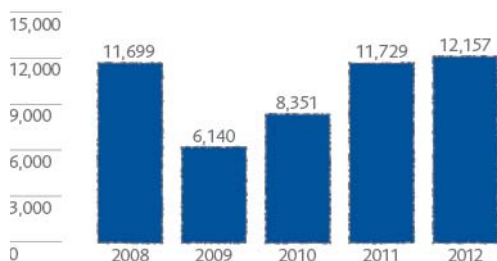
Cash cost for BOF steel globally (US\$/t*)



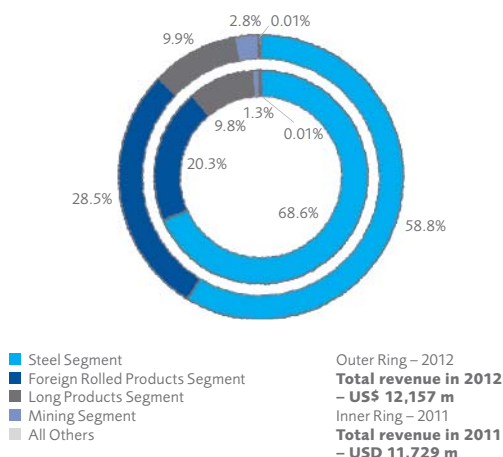
Source: World Steel Dynamics.

* Data as at the end of 2012.

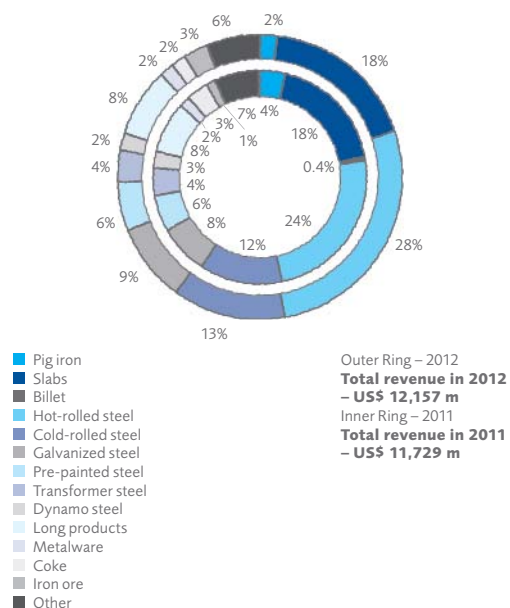
NLMK Group revenue (US\$ m)



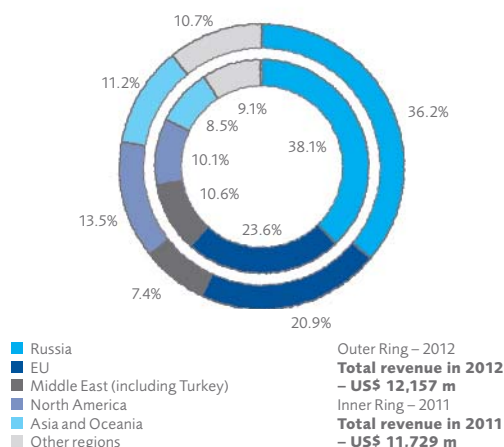
Revenue by segment in 2011–2012



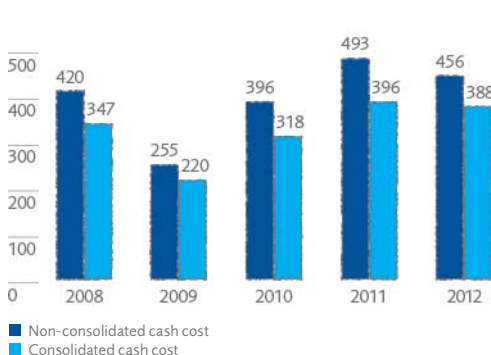
Revenue by product in 2011–2012



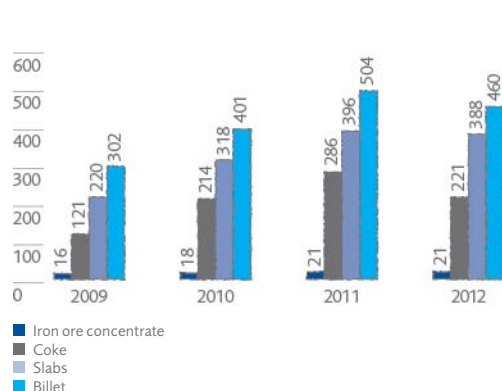
Revenue by region in 2011–2012



Cash cost of slabs (US\$/t)



Cash cost of key products (US\$/t)



NLMK wins IR Global Rankings' "Best Financial Disclosure" award

NLMK has won the "Best Financial Disclosure" category in a Europe-wide evaluation by IR Global Rankings (IRGR), a comprehensive technical ranking system for IR websites, corporate governance practices and financial disclosure procedures of public companies. The ranking was compiled by IRGR in conjunction with leading global consulting and audit companies, including KPMG. The evaluations were executed by a team of experienced investor relations professionals and reviewed by independent audit and legal experts. More than a hundred international companies from a wide range of sectors participated in the ranking.

Eurobond placement at record low rates

In September 2012, the NLMK Group placed its debut issue of seven-year Eurobonds, totalling US\$ 500 million. The coupon rate was 4.95% which, at the time, was the lowest ever rate for a Eurobond issue among Russia's non-state-owned companies. The Group spent the funds from the issue on general business needs, including the refinancing of current liabilities.

The low rate of the debut Eurobond issue confirms investor confidence in NLMK, which has been achieved through a sustainable development strategy, attractive financial performance, high credit ratings and operational transparency.

Selling, general, and administrative expenses

During the 12M 2012, operating expenses increased by 4% to US\$ 1.762 billion. However, general and administrative expenses decreased by 19% to US\$ 448 million due to the continuing optimization measures, as well as a changed approach to the recognition of allowances for doubtful accounts receivable. The 18% increase in selling expenses is mainly due to the increase in sales and a change in the geography of sales.

Interest expenses

In 2012, a portion of the interest payments was capitalized in accordance with US GAAP standards. Interest payments amounting to US\$ 68 million were recognized in the profit and loss statement of 12M 2012. Total interest payments (including capitalized interest expenses) for 2012 were about US\$ 266 million.

Operating profit and EBITDA

Operating profit for 2012 was US\$ 1.133 billion, down 32% year-on-year. In 2012, the Group's EBITDA amounted to US\$ 1.900 billion (a 16% drop compared to 2011); the EBITDA margin was 16% (down 3 p.p.). The slump in the steel market in the second half of 2012 affected profit figures, but was partially offset by the decrease in production costs.

Net profit

For 2012, NLMK's net profit was US\$ 596 million, a 56% drop year-on-year. This was due to reduced operating profits and a one-off accrual of reserves in Q4 2012.

Debt portfolio management

In 2012, financial liabilities in the amount of US\$ 1.725 billion were repaid, including two issues of three-year bonds (BO-01 and BO-05), which were repaid in October and December 2012, at a total of about RUB 15 billion. As a result, NLMK Group's total debt at the end of 2012 was US\$ 4.632 billion, of which 39% is in short-term loans and credit lines. The Group's financial liabilities consist mainly of bonded loans and financial debt of the acquired foreign rolling assets.

At the end of 2012, the Net Debt/12M EBITDA ratio was 1.88.

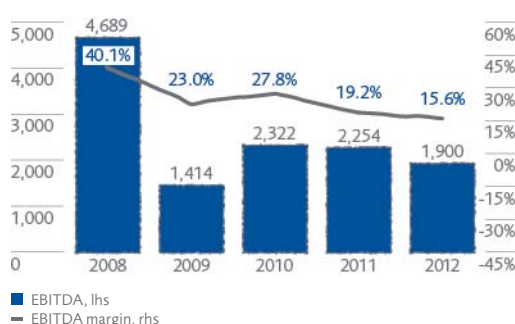
In September 2012, NLMK placed RUB 5 billion in BO-04 series bonds with a maturity of three years, as well as RUB 5 billion in 07 series classic bonds (NLMK-07) with a maturity of ten years.

This was followed on 4 December, by another issue of Russian series 08 bonds (NLMK-08) for a sum of RUB 10 billion with a maturity of ten years, an offering period of three years, and a coupon rate of 8.4%.

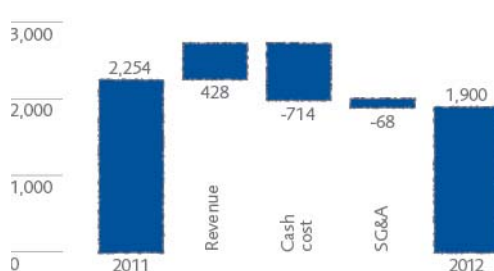
Also, in September 2012, the Group placed a debut issue of Eurobonds totalling US\$ 500 million, with a 4.95% interest rate – the lowest coupon rate ever achieved among Russia's non-state-owned companies – and a seven-year maturity. Steel Funding Limited (Ireland) was the issuer.

Funds received from the placement of the Russian bonds and from the debut issue of Eurobonds (US\$ 500 million issue with a 4.95% interest rate and a seven-year maturity), allowed the Group to significantly restructure its financial obligations. The weighted average maturity of outstanding debt at the end of 2012 increased to 3.1 years.

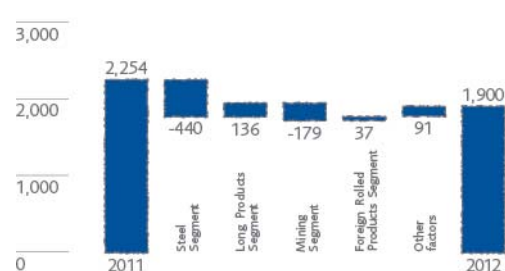
NLMK Group EBITDA (US\$ m)



Change in NLMK Group EBITDA in 2012 (US\$ m)



Change in NLMK Group EBITDA by segment in 2012 (US\$ m)



NLMK has passed the capital-intensive stage

The second stage of the Technical Upgrade Programme was completed during 2012. Its main purpose was to grow low-cost steel production in Russia and to ensure that further processing takes place in close proximity to major customers and, to this end, a number of large-scale projects requiring significant capital investment were completed successfully. Following the completion of this expansion phase, NLMK focused on improving efficiency. At the end of 2012, capital expenditure totalled US\$ 1.5 billion, 29% lower than in 2011. In the past year, the modernization of steelmaking facilities at the Lipetsk site has continued, including the installation of secondary metallurgy equipment. New rolling equipment was installed at NLMK DanSteel and VIZ-Steel. Construction of the NLMK Kaluga mini mill has also continued. In the near future, we expect to be able to further reduce capital expenses.

In addition, a new bond programme was organized in December 2012, with a maturity of three years. The programme amounted to a total of RUB 50 billion.

On 20 February 2013, the Group placed an issue of five-year Eurobonds worth US\$ 800 million, with a coupon rate of 4.45%.



For more information on our net debt to EBITDA ratio dynamics

Credit ratings

The ratings agencies Moody's and S&P gave NLMK's prospects a positive assessment, confirming the Group's investment grade rating in February 2013. NLMK's investment grade ratings from the three top world agencies reflect its leading position.

Consolidated balance sheet

On 31 December 2012, the assets of the Group totalled US\$ 18.458 billion (up 7% since the beginning of the year). Asset growth was related primarily to the increase in the cost of fixed assets on the balance sheet (up 11% since the beginning of 2012) due to capital investments.

The structure of the Group's liabilities has seen an increase in the proportion of current liabilities because of the increase in short-term loans and credit lines (up 39% since the beginning of 2012), due to the maturity in 2013 of previously issued rouble bonds. It is worth noting here the reduction in accounts payable (down 10%), due to the repayment of a part of debt for SIF S.A. shares.

Due to the decline in the NLMK Group's financial results in a weak steel market, the profitability of the Group's assets and equity fell. In 2012, the return on assets was 3% (down 5 p.p. year-on-year); the return on equity was 6% (down 8 p.p.).



For more information on our consolidated financial statements

Cash flow

Cash flow from operations

In 2012, the cash flow from operations was US\$ 1.825 billion, up 1% from 2011. Lower profits in 2012 were largely offset by the optimization of working capital, including a reduction of inventory by US\$ 170 million and of accounts receivable by US\$ 167 million. Significant cash flow from operations made possible substantial capital investments, payment of dividends and other payments without increasing the Company's net debt.

Cash flow from investment activities

The completion of construction on the main production facilities at Novolipetsk, including Blast Furnace # 7 and a new Basic Oxygen Furnace, allowed us to reduce capital investments in 2012 by 29% to US\$ 1.453 billion.

Cash flow from financial activities

Net cash outflow from financial activities in 2012 was US\$ 119 million, due to net external financing of US\$ 21 million, as well as payment of US\$ 117 million in dividends.

Cash and cash equivalents at the end of 2012 totalled US\$ 951 million. Including short-term financial investments, the Group's highly liquid assets at the end of 2012 totalled US\$ 1.058 billion.

Segment performance

Steel segment

US\$ million	2012	2011	Change (%)
Revenue from external customers	7,150	8,043	-11%
Revenue from intersegmental operations	1,526	985	+55%
Gross profit	1,728	2,186	-21%
Operating profit	551	1,075	-49%
Profit after income tax	817	1,160	-30%
EBITDA	968	1,408	-31%
EBITDA margin	11%	16%	
Capex	748	1,330	-44%

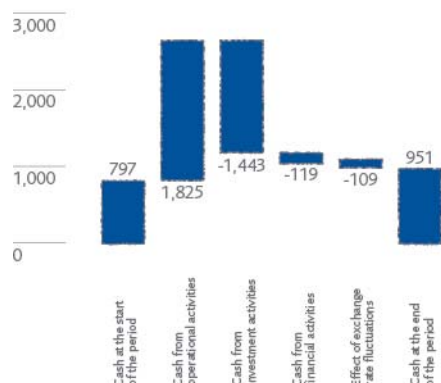
The Group's financial performance is defined largely by the performance of the Steel Segment, which comprises Novolipetsk (Lipetsk site), VIZ-Steel (a producer of electrical steel), trading companies Novexco Limited (Cyprus) and Novex Trading (Switzerland), Altai-koks (Russia's largest non-integrated coke manufacturer), as well as a number of service companies.

Steel Segment sales increased 18% to 12.1 mt but overall revenue decreased by 4%. There was a notable shift towards intersegmental sales: slab sales to the overseas rolling assets prior to their consolidation as part of the Group from 1 July 2011 were counted as sales to external customers. The effect of the price decline in 2012 was partially offset by the increase in the segment's sales.

Because of the decline in sales revenue, the segment's operating profit decreased by 49% to US\$ 551 million. EBITDA for 12M 2012 amounted to US\$ 968 million (down 31% year-on-year), and the EBITDA margin was 11% (down 4 p.p.).

Capex for the Steel Segment were US\$ 748 million (down 44%). Lower investment expenditures were the result of the completion of key projects in the Technical Upgrade Programme.

NLMK free cash flow in 2012 (US\$ m)



Long Products segment

US\$ million	2012	2011	Change (%)
Revenue from external customers	1,199	1,154	+4%
Revenue from intersegmental operations	446	640	-30%
Gross profit	273	208	+31%
Operating profit	86	-55	
Profit after income tax	-40	-317	-87%
EBITDA	170	34	+396%
EBITDA margin	10%	2%	
Capex	300	391	-23%

The Long Products Segment reflects the financial results of the Long Products Division, including NSMMZ, UZPS, scrap collecting and processing facilities, and others. The core activities of these companies are steelmaking (EAF-based), long products and metalware manufacturing, and ferrous and non-ferrous scrap collection and processing.

During 12M 2012, almost all long products were sold in Russia, supported by increased demand from the domestic construction sector. The production of long products and metalware increased by 13% to 1.7 mt as the result of increased demand from the construction sector and the successful completion at the beginning of 2012 of repairs on one of the two electric arc furnaces. As export sales (done through traders that are part of the Steel Segment) contracted, revenue from intersegmental operations fell by 30% to US\$446 million. 2012 EBITDA increased five-fold to US\$170 million; the EBITDA margin was 10%, supported by higher average selling prices and lower operating expenses.

The losses after income tax include mostly interest expenses from intercompany loans provided by the parent company.

Capital expenditure for 2012 totalled US\$ 300 million and most of this was used for the construction of NLMK Kaluga and for the modernization of the scrap collecting and processing sites.

Mining segment

US\$ million	2012	2011	Change (%)
Revenue from external customers	341	149	+129%
Revenue from intersegmental operations	997	1,291	-23%
Gross profit	923	1,075	-14%
Operating profit	793	992	-20%
Profit after income tax	618	841	-26%
EBITDA	861	1,039	-17%
EBITDA margin	64%	72%	
Capex	230	220	+5%

The Mining Segment comprises Stoilensky, Dolomit, and Stagdok, all of which supply raw materials to NLMK's main steel production facility but which also sell a portion of their products outside the Group.

In 2012, concentrate and sinter ore sales were 14.1 mt and 1.7 mt, showing an increase of 7% and 2%, respectively. Growth in operating performance for 12M 2012 year-on-year was due to the increase in the Group's beneficiation capacity in mid-2011. Approximately 11.9 mt of iron ore were supplied to Novolipetsk (part of the Steel Segment). Revenue was down by 7% to US\$1.3 billion, pressured by weaker selling prices. The 12M 2012 EBITDA was US\$ 861 million (down 17% year-on-year) and the EBITDA margin was 64% (down 8 p.p.). The decline in profitability occurred amid falling prices for iron ore against stable production expenditure.

Capital investment in the Mining Segment was US\$ 230 million. Work is continuing at Stoilensky to expand the mine, to increase the beneficiation capacity by 4 mt/y of concentrate and to construct a pelletizing plant for the production of metalized pellets with a capacity of 6 mt/y.

Foreign Rolled Products segment

US\$ million	2012	2011	Change (%)
Revenue from external customers	3,467	2,382	+46%
Revenue from intersegmental operations	1	3	-58%
Gross profit	-72	-61	+18%
Operating profit	-347	-305	+14%
Profit after income tax	-430	-327	+32%
EBITDA	-148	-186	-20%
EBITDA margin	-4%	-8%	
Capex	173	104	+67%

The Foreign Rolled Products segment comprises steelmaking companies located outside Russia. These are rolling assets in Europe and the USA, including those that became part of the Group starting from July 2011. These assets are the thick plate manufacturers NLMK Clabecq (Belgium) and NLMK Verona (Italy), plus flat steel producers NLMK La Louvière (Belgium), NLMK Coating (France), NLMK Strasbourg (France), NLMK Pennsylvania (USA), and Sharon Coating (USA). This segment also includes NLMK Indiana (USA) and NLMK DanSteel (Denmark), which were previously part of the Steel Segment.

The significant increase in the segment's operational performance in 12M 2012 year-on-year was associated with the consolidation of the rolling assets of Steel Invest and Finance (JV with Duferco) starting from H2 2011.

Low demand on the EU and US steel markets, due to the worldwide slump in the steel sector in general and the aggravated crisis in the Eurozone in particular, led to the negative results in the segment. Operating loss was US\$ 347 million in 2012; EBITDA was -US\$148 million.

Capital expenditure in the Foreign Rolled Products Segment in 2012 was US\$ 173 million (a 67% increase year-on-year).

Delivering an all-time record output

A balanced business model that provides control over every stage of the production chain – from raw materials to delivery of the finished product to the customer – with a focus on continuous efficiency improvements, a diversified product portfolio and a strong market position allowed us once again to post a record production volume, increasing output by 25% year-on-year, to maintain the highest level of capacity utilization and to develop new, promising niche areas. As a result, we have once again confirmed our status as one of the most efficient companies in the global steel industry.

Consolidated production highlights

'000 t	2012 output	2011 output	Change	
			+/-	%
Pig iron	11,880	9,793	2,087	21%
Steel	14,923	11,968	2,955	25%
Novolipetsk	12,184	9,760	2,424	25%
NLMK Russia Long	1,804	1,471	332	23%
NLMK Europe Plate	209	127	82	65%
NLMK USA	726	610	116	19%
Commercial pig iron	562	929	-368	-40%
Semi-finished steel products	3,914	3,321	593	18%
Slabs	3,912	3,251	661	20%
Billets	2	70	-68	-97%
Total rolled products	10,737	8,802	1,936	22%
Flats	8,997	7,256	1,741	24%
Hot-rolled steel	3,799	2,922	877	30%
Plates	924	695	229	33%
Cold-rolled steel	1,998	1,725	273	16%
Galvanized steel	1,164	880	284	32%
Pre-painted steel	585	523	62	12%
Transformer steel	246	237	9	4%
Dynamo steel	282	275	7	3%
Long products and metalware	1,740	1,545	195	13%
Long products	1,454	1,307	147	11%
Metalware	287	239	48	20%
Steel products – total including HVA products	15,213	13,052	2,160	17%
	5,485	4,573	912	20%



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For more information on NLMK Russia



76

For more information on NLMK Europe



80

For more information on NLMK USA

Consolidated highlights

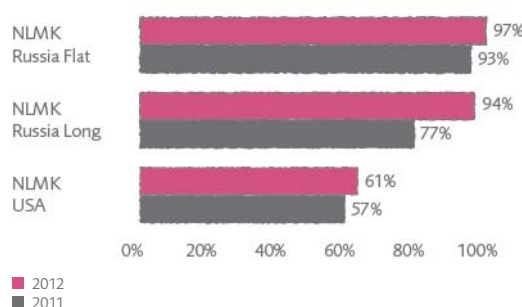
Despite the instability on the world markets for steel and for rolled products, NLMK increased its steel production in 2012 by 3 mt to 14.9 mt. This was made possible through the utilization of the full design capacity of the steelmaking facilities at the Lipetsk site, as well as a consistently high level of utilization of steelmaking capacity in the NLMK Russia Long and NLMK USA divisions. Around 95% of all steel was produced by the Group's Russian assets. Our annual results show that NLMK has become the country's largest steelmaker and, in 2012, the Group's Russian enterprises produced about 20% of all steel manufactured in Russia.

Production of finished steel products reached 15.2 mt, an increase of 17% over 2011. The rise in production of finished products is due to the consolidation of overseas rolling assets in mid-2011, as well as to the increased rolled product output at the Lipetsk site. The production of high value added (HVA) products increased by 20%, representing 36% of total steel production (up 1 p.p. year-on-year).

Outlook for 2013

In 2013, the Group plans to increase steel production to 15.5 mt/y through the increased utilization of existing facilities and through the introduction of new facilities, namely the NLMK Kaluga Mini Mill, with a long product capacity of 1.5 mt/y. We are expecting to see a gradual increase in sales in the domestic market due to the expansion in our traditional niche markets and our penetration of new market segments. The Group is also continuing to develop the effective integration with our overseas rolling assets, thereby ensuring a stable level of utilization of the main facilities throughout the production chain. We also intend to maintain and eventually increase the share of high value added products produced close to key consumers.

Rolling capacity utilization





Sergey Filatov
Managing Director

From 2007 to 2009, Mr Filatov was a project manager in the NTMK Project Management Department. From 2009 to 2012 he served as Chief Engineer at NTMK. He has been with NLMK since October 2012, serving as Deputy Senior Vice President - General Director for Production and Technology until January 2013. He graduated from the Moscow Institute of Steel and Alloys with a Ph.D. He is an Honorary Metallurgist of the Russian Federation and an Honoured Metallurgist of the Russian Federation.

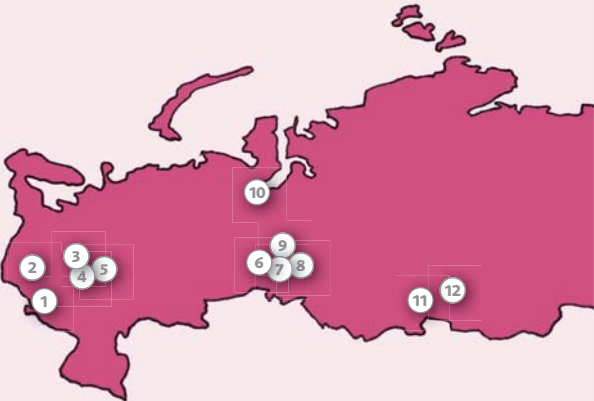
NLMK Russia is the key segment of the NLMK Group business. This division, which includes all stages of the production chain from raw material extraction to production of high-quality finished products, is the basis of NLMK's leading position in terms of production costs. NLMK Russia includes facilities for Basic Oxygen Furnace (BOF) and Electric Arc Furnace (EAF) steel production together with rolling assets producing flat and long products and low-cost raw material assets that almost completely meet the Group's requirements for key raw materials.

"2012 was marked by weak market conditions and a seasonal decline in consumer activity. Nevertheless, NLMK Russia's sites maintained high levels of capacity utilization throughout the year. The Group's Russian assets produced approximately 20% of Russia's steel, which made NLMK the largest steelmaker in Russia. High production efficiency and a balanced portfolio of products have ensured almost 100% capacity utilization at our Russian assets, despite the significant deterioration in market conditions on international markets.

The Division increased its domestic sales by 14%, as well as the share of Russian sales in the overall supply structure. An important factor helping us to compensate for the negative situation on the global market was the reduction by 2% in steel production costs at our main production site in Lipetsk to US\$ 388 per tonne. In 2013, we plan to strengthen our position as market leader in terms of scale of production, business efficiency and product competitiveness."

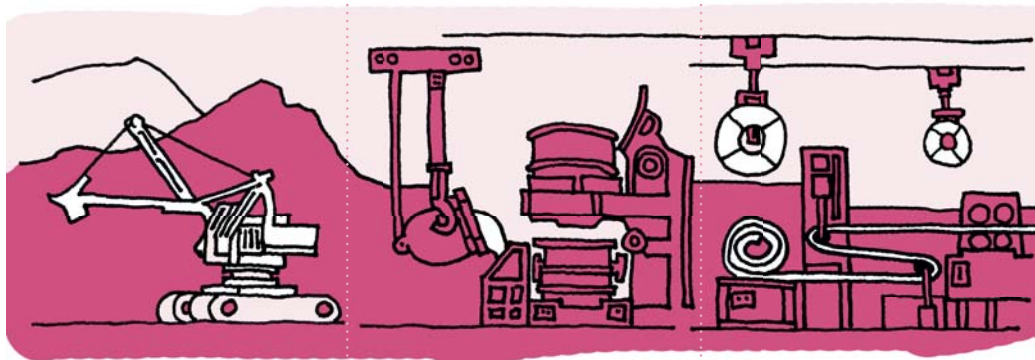
Sergey Filatov
Managing Director

Operating companies	Products	End uses
NLMK Russia Flat 4 Novolipetsk 8 VIZ-Steel	Flat products: hot-rolled steel, cold-rolled steel, galvanized steel, pre-painted steel, transformer steel and dynamo steel Semi-finished products: pig iron, slabs	Construction and infrastructure, automotive manufacture, machine building, shipbuilding, and manufacture of electrical machinery and equipment
NLMK Russia Long 6 NSMMZ 9 UZPS 2 NLMK Kaluga (under construction)	Billets, rebar, wire rod, metalware	Construction and infrastructure, machine building
NLMK Russia Raw Materials 1 Stoilensky 5 Stagdok 3 Dolomit 11 Altai-Koks 7 Vtorchermet NLMK Licences to develop coal deposits: 12 Zhemovskoye-1, Zhemovski Gluboki 10 Usinsky 3	Iron ore concentrate, sinter ore, dolomite, fluxing limestone, coke, chemical products, scrap	NLMK Group and other steelmakers, non-ferrous metal and chemical companies in Russia, the CIS, Europe, and Asia, as well as the construction and road-building sectors



2012 highlights:

- 96% utilization of steelmaking capacities
- 97% utilization of rolling capacities
- 4.9 mt NLMK Group's sales in Russia (32% of total sales)
- US\$ 1.3 bn in capex
- 14 mt of steel output
- 5.1 mt of flat products
- 1.7 mt of long products and metalware
- 15.6 mt of iron ore
- 7.1 mt of coke, 6% moisture
- 2.1 mt of processed scrap



Upstream

100%

Share of NLMK Russia in total operations

Assets

- NLMK Russia Raw Materials

Midstream

94%

Share of NLMK Russia in total operations

Assets

- Novolipetsk
- NSMMZ
- NLMK Kaluga (under construction)

Downstream

64%

Share of NLMK Russia in total operations

Assets

- NLMK Russia Flat and NLMK Russia Long

About NLMK Russia

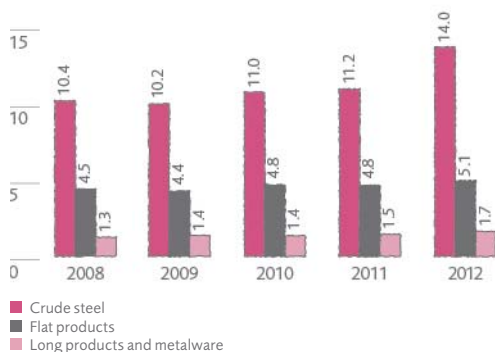
A favourable geographical location, the concentration of key assets in close proximity to each other, and high operating efficiency enables NLMK Russia to make the best use of the advantages of vertical integration and maintain the Group's leading position on the international market. NLMK Russia comprises three subdivisions:

- NLMK Russia Flat. This subdivision's assets occupy a leading position on the Russian market, accounting for 17% of the steel and 8% of the rolled steel produced in the country, as well as 100% of Russian transformer steel.

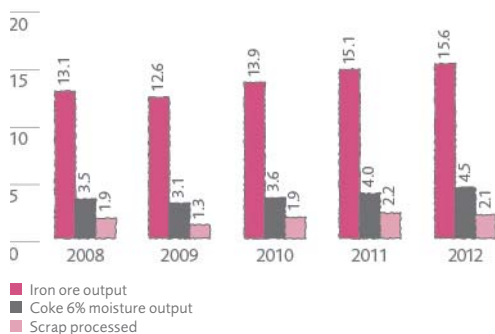
- NLMK Russia Long. This subdivision's capacities include the NSMMZ and UZPS sites, as well as NLMK Kaluga, which is scheduled to begin operations in 2013. NLMK Russia Long has 17% and 22% of the market for rebar and metalware (low carbon segment), respectively.

- NLMK Russia Raw Materials. Altai-Koks, Stoilensky, Dolomit and Stagdok supply the Group's main production site with key raw materials, namely iron ore concentrate, sintered ore, fluxes and coke. Scrap is supplied to NLMK Russia's facilities by captive scrap collection sites that meet 85% of the Group's needs.

NLMK Russia crude steel and finished steel output (mt)



NLMK Russia Raw Materials performance (mt)*



* 6% moisture coke production includes Altai-Koks production but does not include Novolipetsk production, which is part of the NLMK Russia Flat segment

NLMK Russia operating performance

Divisions/Assets of NLMK Russia	Output in 2012 (mt)	Output in 2011 (mt)	Change (%)
NLMK Russia Flat			
Novolipetsk	Steel: 12.2	9.8	+25%
VIZ-Steel	Flats: 5.1	4.8	+7%
	HVA products: 3.1	3.0	+3%
NLMK Russia Long			
NSMMZ	Steel: 1.8	1.5	+23%
UZPS	Long products 1.5	1.3	+11%
NLMK Kaluga (under construction)	HVA products (metalware): 0.29	0.24	+20%
NLMK Russia Raw Materials			
Stoilensky	Iron ore concentrate: 13.9	13.4	+4%
Stagdok	Sinter ore: 1.7	1.7	+0%
Dolomit	Dolomite: 2.08	2.13	-2%
Licences to develop coal deposits:	Limestone: 3.6	3.3	+10%
Zhernovskoye-1, Zhernovskiy Gluboki, Usinsky 3	Coke, 6% moisture (Altai-Koks): 4.5	4.0	+12%
Altai-Koks	Coke, 6% moisture (Altai-Koks + Novolipetsk): 7.1	6.6	+8%
Vtorchermet NLMK	Scrap processing: 2.1	2.2	-1%

NLMK Russia Flat

How Novolipetsk works

The Group's main production site in Lipetsk, Novolipetsk, is one of the three largest steel companies in Russia and one of the most important urban development enterprises in the country. The facility is a fully integrated steelmaking plant, combining all stages of the production chain, from raw material processing to production of flat steel, including:

1) Raw material processing

- Production of agglomerate, one of the types of iron ore used for smelting iron in blast furnaces;
- Production of coke used as a heat source and reducing agent in the blast furnace;

2) Steel production

- Production of pig iron in blast furnaces;
- Basic Oxygen Furnace (BOF) steel production, secondary processing and casting of metal in continuous casting machines into semi-finished products (slabs);

3) Production of rolled steel

- Production of hot-rolled steel in the hot strip mill;
- Turning hot-rolled strip into cold-rolled steel, including galvanized and pre-painted steel, transformer steel, and dynamo steel.



Assets

The main assets within NLMK Russia Flat – Novolipetsk and VIZ-Steel – produce around 60% of the NLMK Group's flat steel. The Group's main production site in Lipetsk (Novolipetsk) is one of Russia's largest producers of steel and rolled products. VIZ-Steel, our rolling facility in Yekaterinburg (Urals), produces electrical steel from substrate supplied by Novolipetsk. NLMK Russia Flat manufactures almost 37% of all of the flat high value added products in the Russian market and is one of the leading producers of pre-painted steel (40%), galvanized steel (24%) and transformer steel (100%).

Novolipetsk

Novolipetsk is NLMK Russia's main production site. It has a capacity of 12.4 mt/y of BOF steel and 5.6 mt/y of hot rolled steel and employs 30,000 people.

The company has an integrated steel production cycle and an extended product mix, from common products, pig iron, slabs, and hot-rolled products to value-added cold-rolled, galvanized and pre-painted steel, as well as unique niche products, such as electrical steel.

The company's products are used in construction, the automotive industry, machine building, shipbuilding, the manufacture of electrical machinery and equipment and many other industries. The quality of the plant's production meets the requirements of leading Russian and international companies, and is widely used where exceptional quality and reliability are essential. The plant supplies customers throughout the world who demand the most exacting quality and service.

VIZ-Steel

VIZ-Steel is a non-integrated steel producer capable of producing 170,000 t/y of transformer steel. The company's products are used in the manufacture of power and distribution transformers, welding and thermal equipment, high frequency generators and converters and motors.

Stable production processes and an efficient Quality Management System in line with international standards ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007, ensure the quality of VIZ-Steel's products.

Performance in 2012

Novolipetsk

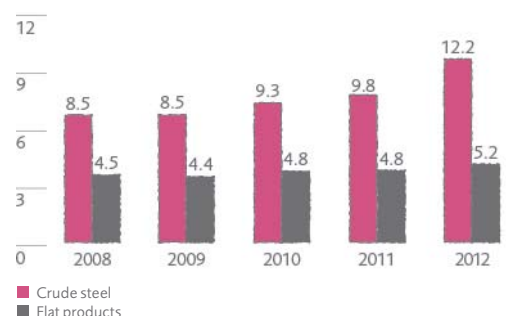
In 2012, Novolipetsk produced 12.2 mt of steel, up 25% year-on-year. The key driver behind this growth was the increased utilization of the capacity of the new Blast Furnace # 7 and its Basic Oxygen Furnace (BOF).

Production of commercial slabs increased by almost half to 6.4 mt, of which 2.6 mt (or around 40%) were sold to the Group's overseas rolling mills. Flat steel production capacity increased to 5.2 mt (+7% year-on-year) due to the reconstruction of the reheating furnaces, increasing the annual capacity of the hot rolling mill to 5.6 mt per year. The decline in production of commercial pig iron by 40% year-on-year was due to the management's decision to idle Blast Furnace # 2 as a result of a significant reduction in market demand for pig iron in Russia and abroad.

In 2012, the plant passed a further audit by certification body TÜV SÜD (Germany) to meet ISO/TS 16949:2009. This confirmed that its Quality Management System processes comply with international standards for the manufacture of automotive products.

We strive continuously to improve the quality of our products and this includes implementing projects as part of our Technical Upgrade Programme. In 2012, a ladle furnace was commissioned at the site with a capacity of 2 mt/y for the production of high quality steel for the automotive, machine building, and construction industries. As part of a project to increase steel production, we have commissioned a two-station hot metal desulphurization unit with a capacity of 5.8 mt/y. Our high-quality products allow us to compete successfully in the market and to explore new niches, such as the production of slabs for large-diameter pipes.

Crude steel and flat products output at Novolipetsk (mt)



Novolipetsk operating performance

'000 t	2012	2011	Change	
			+/-	%
Sinter	14,760	14,507	253	2%
Coke 6% moisture	2,591	2,554	37	1%
Crude steel	12,184	9,760	2,424	25%
Pig iron	11,880	9,793	2,087	21%
Finished products:				
Commercial pig iron	562	929	-368	-40%
Commercial slabs	6,400	4,366	2,034	47%
Flat steel	5,169	4,840	328	7%
Hot-rolled steel	2,211	1,995	216	11%
Cold-rolled steel	1,496	1,448	48	3%
Galvanized steel	578	562	16	3%
Pre-painted steel	519	494	25	5%
Transformer steel	81	67	15	22%
Dynamo steel	282	275	7	3%
Total steel products	12,130	10,135	1,995	20%

VIZ-Steel

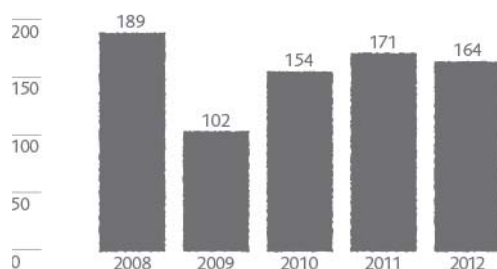
In 2012, the company produced 164,000 tonnes of transformer steel (down 4% year-on-year), which was due mainly to the modernization work being carried out on the site's rolling capacity.

Two units for thermo-flattening annealing were overhauled in 2012, resulting in an increase in the proportion of first choice steel. Construction of a reversing mill was also completed. The commissioning of the mill, which is scheduled to begin operating in the first half of 2013, is one of the key stages in the programme to develop the production of high-permeability transformer steel.



For more information on our transformer steel production upgrades

Transformer steel output at VIZ-Steel ('000 t)



Corporate responsibility activities Novolipetsk

The site has a strong focus on environmental responsibility. In 2012, a further audit of the Environmental Management System was successfully carried out at the Lipetsk site. It confirmed that the plant meets the requirements of the ISO 14001:2004 international standard. The auditors particularly commended the company for its environmental management, as well as for the conservation projects that have been completed and for those currently underway and confirmed that the site had carried out its stated commitments in terms of environmental protection.

In 2012, the plant was the first in the Russian steel industry to receive a certificate documenting that its Energy Management System meets global standards, confirming that the site has been successful in adopting the best technologies to optimize energy consumption and the use of natural resources, thus reducing its negative impact on the environment. The plant covers up to 60% of its energy requirements through in-house generation, using process off-gases from blast furnace and basic oxygen furnace operations.



For more information on the increase in our energy self-sufficiency

VIZ-Steel

VIZ-Steel won the main prize in the federal competition for 'The 100 Best Russian Enterprises of 2012: Ecology and Environmental Management'.

How VIZ-Steel works

VIZ-Steel is the world's leading manufacturer of electrical steel and a major manufacturer of transformer steel in Russia. NLMK supplies hot rolled coil to VIZ-Steel, where it undergoes further processing during the manufacture of transformer steel. In the cold rolling shop, hot-rolled strip is processed by alternate rolling and heat treatment stages in order to achieve the desired magnetic and mechanical properties. It is then decoiled into strips or cut to length if necessary, packed and then shipped to the customer. VIZ-Steel's original technological process facilitates continuous monitoring of the magnetic properties of the steel during the production process, thereby ensuring stability along the coil.

Strategic priorities for 2013

A key goal of the division is to improve the efficiency of its business processes. With that in mind, the companies within the division plan to develop their production and to improve the quality of promising products (including completing projects to improve transformer steel production at Novolipetsk and VIZ-Steel), to reduce production costs and to increase efficiency through process improvement, the use of new technologies and the optimization of raw materials.

2013 goals:

- Improving production and the quality of promising products
- Increasing production efficiency
- Minimizing costs of raw materials, fuel, materials and energy
- Optimizing fuel and raw material balances
- Reducing impact on the environment, including waste minimization

NLMK Russia Long



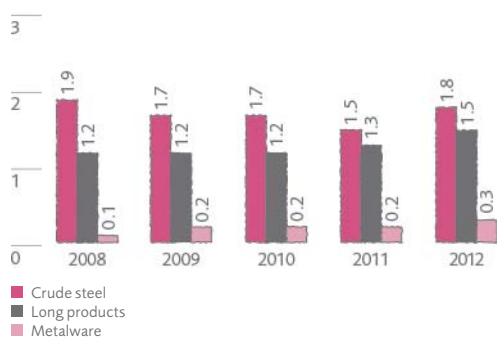
"Since entering the market for long products in 2008, the NLMK Group has not only diversified its product line but has also become a major player in this segment. NLMK Russia Long integrates steelmaking and rolling assets in Yekaterinburg and Kaluga. In 2012, steel output was 1.8 mt. Production of finished products increased by 8% to 1.7 mt, with production of long products increasing by 11% and metalware and HVA products by 20% year-on-year. The increase in volume was due primarily to increased demand from the Russian construction sector."

Alexander Burayev

Director for Long Products and Metalware

Mr Burayev began his career at NLMK in 1988 as a heat-treatment engineer. From 2002 to 2007, he worked as Head of the Cold Rolled and Coated Flats Shop at Novolipetsk and then, from 2007 to 2010 he was Head of Production at NLMK's Operations Department. He has been the Director for Long Products and Metalware and General Director of NLMK Russia Long since 2010. He graduated from the Lipetsk Technical Institute in Steelmaking and Welding Technology in 1986.

NLMK Russia Long crude steel and finished product output (mt)



NLMK Russia Long operating performance

'000 t	2012	2011	Change	
			+/-	%
Steel	1,804	1,471	332	23%
Steel product output:	1,742	1,616	126	8%
Commercial billet	2	70	-68	-97%
Long products	1,454	1,307	147	11%
Metalware	287	239	48	20%

Assets

NLMK Russia Long includes sites producing long products and metalware, namely NSMMZ and UZPS, together with NLMK Kaluga, which is currently under construction. The division's facilities constitute a closed-loop manufacturing cycle, including all stages of the production chain, from the processing of scrap metal, through steel production in electric arc furnaces to the finished product: rebar, wire rod and metalware (low carbon). The division's share of the Russian markets for rebar and metalware is 17% and 22% respectively, with the Russian construction sector being the division's key consumer.

NSMMZ

The Nizhneserginsky Steel Plant (NSMMZ) is a modern producer of steel using electric arc furnaces with a capacity of 2.2 mt/y and long products.

UZPS

The Urals Precision Alloys Factory (UZPS) specializes in the production of value-added metalware using wire rod from NSMMZ and is one of Russia's largest metalware manufacturers. It has a capacity of 0.5 mt/y of metalware.

NLMK Kaluga

NLMK Kaluga is a mini mill located in the central part of European Russia. It is equipped with an EAF furnace with a capacity of up to 1.5 mt/y of steel, with rolling mill equipment for the production of rebar and steel shapes. NLMK Kaluga is a new-generation company based on the mini-mill concept for electric arc steelmaking and rolling mill production, in close proximity to sources of raw materials (scrap) and consumers of finished products. The facility is scheduled for start-up in 2013.



For more information on this project

Performance in 2012

In 2012, steel production totalled 1.8 mt. Manufacture of finished products increased by 8% to 1.7 mt; production of long products went up by 11% and metalware – high value added products – by 20% year-on-year. The upturn in steel production was due mainly to the rise in demand from the Russian construction sector.

Corporate responsibility activities

In February 2013, NSMMZ and UZPS launched a programme to improve the effectiveness of the occupational health and safety management system, which has been developed for all of the division's companies. The primary objective of the programme is to strengthen the principles of occupational health and safety among staff so that the companies can reduce the level of injuries and the number of accidents at work.

The division has also prioritised interaction with the community and local authorities. NSMMZ's efforts to organize a children's summer recreation programme in 2012 were noted in a gratitude letter from the Sverdlovsk regional government.

Strategic priorities for 2013

A key strategic priority for 2013 is to maximize sales while maintaining high operating efficiency. An important event in 2013 will be the commissioning of the NLMK Kaluga Mini Mill. The launch of this project will increase production of both steel and long products. It will also significantly expand NLMK Russia Long's product line, strengthening the Group's position in the key construction segment, which accounted for up to a third of the Group's domestic sales in 2012.

2013 goals:

- Expanding market presence through the efficient use of existing plant capacities and the commissioning of new ones
- A flexible sales strategy and improved customer service
- Expanding the range of long products and metalware
- Ensuring high efficiency at all stages of the process

NLMK Russia Raw Materials



"A high level of vertical integration forms the basis of the Group's self-sufficiency in raw materials. Our efficient business model includes a broad resource base located in Russia. Facilities for the mining and production of iron ore, fluxes and coke and for the collection and processing of scrap, meet the needs for key raw materials. Together, they enable the Group to be a global leader in terms of profitability and cost of steel production. NLMK includes Russia's largest producers of raw materials. Stoilensky and Altai-Koks accounted for more than 14% of all iron ore concentrate and 14.7% of bulk coke produced in Russia, respectively. Vtorchermet NLMK has the country's largest network of scrap processing sites. In future, we plan to increase our level of self-sufficiency in coking coal by adhering to the principle of maximum cost-effective upstream integration. We are working to create an optimal portfolio of coal assets in order to achieve this goal."

Alexander Saprykin

Vice President, Strategic Raw Materials Division

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

He graduated from the Moscow State Mining University.



"The mining and processing of iron ore is one of the key activities of NLMK Russia Raw Materials. Efficient mining assets, including Stoilensky, Dolomit and Stagdok, allow us to control the cost of key raw materials needed for steel production. They fully meet the Group's requirements for iron ore concentrate and fluxes, as well as enabling us to weather the impact of price fluctuations on the raw materials market."

In 2012, work began on expanding the Group's capacity to achieve full self-sufficiency in iron ore, including in pellets once the pelletizing plant is launched in 2015."

Alexander Gorshkov

Vice President, Head of Iron Ore Division

From 1999 to 2003, he served as General Director of Dolomit and then from 2003 to 2004, he was Deputy Director of the Lipetsk branch of Rumelco Ltd. General Director of Stoilensky since 2004.

He graduated from the Novosibirsk Electro-Technical Institute.

How Stoilensky works

Stoilensky is one of Russia's leading mining companies in the production and processing of iron ore. The company is located close to the Group's main site and develops the largest iron ore deposit in Russia: the Kursk Magnetic Anomaly. The company has 5 billion tonnes of ore reserves. Beneficiation capacity is approximately 14 mt/y.

The main production stages at Stoilensky are:

1) Extraction of raw materials. The deposit is mined using an opencast method. Loose rocks are processed using walking beam excavators and a rotor complex. Overburden, sinter ore, and ferruginous quartzite are mined by excavators with preliminary loosening and blasting.

2) Transportation of rock from the quarry to the beneficiation plant by pipeline, road, and rail.

3) Beneficiation and production of the end product. At the beneficiation plant, ferruginous quartzite is crushed and undergoes several stages of enrichment to produce iron ore concentrate with an iron content of about 66.5%.



Assets

The division includes all of the raw material assets that cover the Group's requirements for key raw materials. Stoilensky provides more than 100% of the iron ore concentrate requirements of the Company's main production site. Stagdok and Dolomit fully cover the Company's need for flux materials. In combination with Novolipetsk, Altai-Koks covers more than 100% of the Group's coke requirements, while 85% of NLMK's scrap requirements are met by its own scrap-collecting sites.

Mining

NLMK's main mining facility is Stoilensky, which produces iron ore, while Stagdok and Dolomit supply our main production site with limestone flux and dolomite. The Company also has licences to develop coal deposits at Zhernovskoye-1, Zhernovskiy Gluboki and Usinsky-3.

Stoilensky

Stoilensky is one of the largest mining companies in Russia and an industry leader in the production of iron ore for the steel industry. In 2012, Stoilensky supplied 12% of the iron ore produced in the country.

It is located in the Belgorod region of Central Russia, 350 km from the Lipetsk site, and is developing the Stoilenskoye deposit of the Kursk Magnetic Anomaly (KMA), the world's largest iron ore basin. Ore is extracted in an open cast mine. On-balance reserves of magnetite quartzite are around 5 bn t, and around 53 mt of high-grade ore.

Its production capacity is 14 mt/y of iron ore concentrate, with an iron content of around 66.5%, and around 1.7 mt/y of sinter ore (52% Fe). Stoilensky has some of the lowest production costs in the world.

Stagdok

Stagdok produces the fluxing limestone used in steelmaking, materials for construction and road-building and other products. The facility is located within 20 km of NLMK's main production site and fully meets the demand for fluxing limestone from the NLMK's steelmaking business.

Dolomit

Dolomit produces flux dolomite for steelmaking operations. Located close to the main production site in Lipetsk (90 km), the company completely satisfies NLMK's requirements for dolomite.

Iron ore, flux and coking coal reserves

	Stoilensky		Stagdok	Dolomit	Zhernovskoye-1 (incl. Zhernovskoye-1 and Zhernovskiy Gluboki)	Usinsky-3
	Rich iron ore*	Magnetic quartzite*	Limestone	Dolomite	Coking coal grades Zh, GZh	Coking coal grades 2Zh, KZh
Reserves, mt	53	2,157	143	378	236	227**
Years of reserves	~34	~68	~30	~103	~40	~40

* within the current pit boundary

** after follow-up further exploration, reserve levels will be adjusted

Licences

Zhernovskoye-1 and Zhernovskiy Gluboki

In 2005, NLMK obtained mineral prospecting and development rights to the Zhernovskoye-1 coal deposit in Kemerovo Region. The Zhernovskiy Gluboki deposit is located below the Zhernovskoye-1 deposit and has reserves of high-quality hard coking coal (grade Zh). The combined coking coal reserves of Zhernovskoye-1 and Zhernovskiy Gluboki are 236 mt.

Usinsky-3

This deposit is located in the northern part of the Komi Republic (North-Western Russia). Usinsky-3 reserves exceed 227 mt of high-quality hard coking coal (grades 2Zh and Zh).

Currently, the Zhernovskiy-1 and Usinsky-3 coal deposits are being developed under the license agreements:

- For Usinsky-3, all the prospecting and exploration activities have been completed for the Severny plot; optimal infrastructure solutions are being selected.
- For Zhernovskiy-1 project documentation has been developed.

Coke production

Coke is one of the key raw materials for steelmaking. NLMK has 6% moisture coke production facilities at Altai-Koks (4.7 mt/y) and at Novolipetsk (2.6 mt/y), making the Group more than 100% self-sufficient in coke.

Altai-Koks

Altai-Koks is one of Russia's largest coke producers, accounting for around 8% of gross coke sales in Russia (excluding intra-company sales).

The company is located in Altai Territory, close to the Kuznetsk Coal Basin mining companies, which helps to streamline transportation costs. Key products include coke and chemical by-products: coal tar pitch, benzene, ammonium sulphate, and others.

Scrap processing

Vtorchermet NLMK

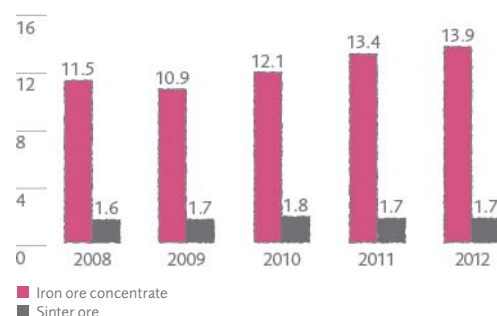
Vtorchermet NLMK is a combination of ferrous scrap collecting and processing businesses. It has a scrap processing capacity of around 3.5 mt/y.

Performance in 2012

Mining Stoilensky

In 2012, production of iron ore concentrate increased by 4% to 13.9 mt. This increase was driven by the commissioning of an additional beneficiation section in mid-2011. Sales of iron ore concentrate and sinter ore in 2012 amounted to 14.1 mt (+7%) and 1.7 mt (+2%) respectively. 80% of the iron ore concentrate and 35% of the sinter ore were shipped to Novolipetsk. The increase in iron ore sales in 2012 was due primarily to the increase in deliveries of products to other customers, including the Russian steel sector and buyers in export markets such as China, Ukraine, and Eastern Europe.

Stoilensky output (mt)



In 2012, Stoilensky continued its ambitious programme of long-term development, a key objective being to supply 100% of NLMK Group's requirements for high-quality iron ore, including pellets and iron ore concentrate. In particular, construction began on a Pelletizing Plant with a capacity of 6 mt/y of pellets, which will eventually fully meet the Company's requirements for this type of raw material. Plant launch is expected in 2015.



For more information on Stoilensky capacity expansion

Stagdok

In 2012, production increased by 10% to 3.6 mt due to the increase in demand for limestone at the main production site. Sales of commercial products in 2012 increased by 27% year-on-year, and amounted to 3.8 mt, of which 3.1 mt (82%) of fluxing limestone was supplied to Novolipetsk.

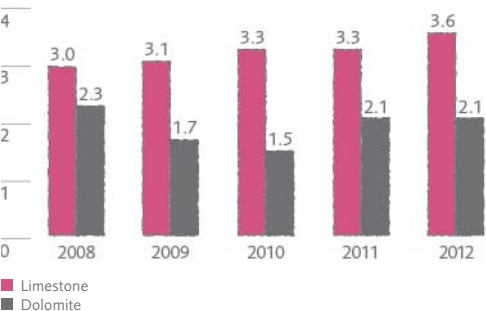
Dolomit

Production in 2012 remained largely in line with the previous year, totalling 2.1 mt. Sales increased to 2.2 mt (+ 6%), of which 48% was shipped to Novolipetsk. The growth in sales of main products was due to increased consumption of dolomite in road repair and construction.

Coke production Altai-Koks

Due to the increased demand for coke in 2012, production of 6% moisture coke increased by 12% year-on-year, and amounted to 4.5 mt. Coke sales in 2012 amounted to 4.2 mt dry weight (+11% year-on-year), of which 3.4 mt (or 81% of total deliveries) were shipped to Novolipetsk. The growth in sales is due mainly to an increase in the plant's demand for coke related to the expansion in production capacity.

Flux production (mt)



Third-party consumers supplied by Altai-Koks in 2012 were other steelmakers, non-ferrous metal producers, and petrochemical companies from Russia, CIS countries, Europe, and Asia.

Scrap processing Vtorchermet NLMK

In 2012, Vtorchermet NLMK processed 3.3 mt of scrap, of which 97% was consumed within the NLMK Group (55% at NSMMZ and 42% at Novolipetsk). The volume of scrap processed by the network was practically unchanged from 2011 and amounted to 2.1 mt.

Corporate responsibility activities Mining

Stoilensky is demonstrating its commitment to environmental principles and its social responsibility with regard to the environment through the implementation of systemic environmental management procedures. The company's activities in the field of environmental management are ISO 4001:2004 certified.

Coke production

Altai-Koks was declared the winner of the ninth "Mining and Metallurgical Complex with High Social Effectiveness" industry competition in the 'Occupational Health and Safety' category. Its experience in occupational health and safety has become a model for the industry. Each year, about RUB 200 million is spent on improving working conditions, health treatment and therapy, and providing employees with protective clothing and modern personal protective equipment. Altai-Koks is dedicated to improving working conditions, and is continually striving to prevent injuries, occupational illnesses, and accidents at work.

Scrap processing

Over the course of Russia's Ministry of Industry and Trade's vehicle reclamation programme, Vtorchermet NLMK has processed approximately 30,000 vehicles and the subsequent volume of prepared scrap exceeded 20,000 tonnes. The company has the highest geographical coverage of all the country's scrap processing organizations involved in vehicle recycling: Vtorchermet NLMK is implementing the government programme in more than 37 regions. We attach great importance to this area of work, as we understand its significance in promoting the concept of recycling metal and other materials, and in improving the country's environment as a whole. We plan to participate in future vehicle disposal programmes.

Strategic priorities for 2013 Mining

Stoilensky will continue implementing its plans to expand iron ore mining, and construct beneficiation facilities and a pelletizing plant. These facilities are scheduled to begin operating in 2015–2016.

Coke production

Altai-Koks will continue to work to ensure that Novolipetsk is supplied with the required quality of coke in the quantities needed for the plant's growing steel production.

Scrap processing

Vtorchermet NLMK will continue to implement the Group's medium-term objectives: by 2017, it will increase the Group's self-sufficiency in scrap to 87% taking into account the augmented steelmaking capacity. The company also plans to increase its share of the Russian scrap market in the regions where it operates to 25% by consistently increasing the volume of its own billets.

2013 goals:

- Implementation of a programme to increase self-sufficiency in iron ore by expanding mining and beneficiation capacity
- Construction of a pelletizing plant
- Increasing production in order to supply Novolipetsk with key raw materials to meet the demand resulting from a higher steelmaking capacity
- Increasing the Group's self-sufficiency in scrap



Horacio Malfatto
President (CEO) of NLMK Europe

He was Commercial Manager at Duferco Steel Processing in South Africa from 1998 to 1999, General Manager from 1999 to 2002, and Member of the Board from 2002 to 2005. He was CEO of Duferco Coating in France from 2003 to 2006. From 2004 to 2011, he was CEO of Duferco La Louvière in Belgium. He was CEO of the joint venture NLMK-Duferco from 2007 to 2011.

He graduated from the University of Buenos Aires as an Industrial Engineer and completed the Executive Programme on Business Administration from the IAE Business and Management School at Austral University.

NLMK Europe includes the Group's rolling assets in Europe, producing a wide range of high value added flat products. It consists of two business units: NLMK Europe Strip and NLMK Europe Plate. These assets are integrated into the Group's business model in accordance with NLMK's development strategy, namely rolling facilities that manufacture finished high value added products in close proximity to the end user, using semi-finished products made at low cost in Russia. In this way, the Group ensures the production of high quality steel, with a customized approach for each customer and low lead times.

"In Europe, steel demand continues to be negatively affected by the economic downturn, a situation aggravated by the overcapacity in the region. Today, more than one third of EU steel capacity remains idle. In this environment we concentrate our efforts on focusing sales in the premium niche products, improving service and reducing costs. The strategy of NLMK Europe is to focus on High Added Value products and the improvement in the efficiency of our operations across the whole downstream scenario.

NLMK Europe Plate is developing new products: abrasion resistant steels (Quard®) and high yield strength steels (Quend®) at NLMK Clabecq. At NLMK DanSteel, we have launched a new plate mill to expand the range and dimensions of plates, thereby increasing our production of very wide and higher strength steels. This helps us to offer a wider product mix and better quality to our existing and new customers, winning the market share.

At NLMK Europe Strip, we have developed the production of high value added steels, mainly for the automotive industry, where we increased our presence virtually from zero to half a million tonnes and we are planning to increase this exposure. Our key competitive advantages include a stable supply of slabs from NLMK Russia, low lead times coupled with competitive pricing."

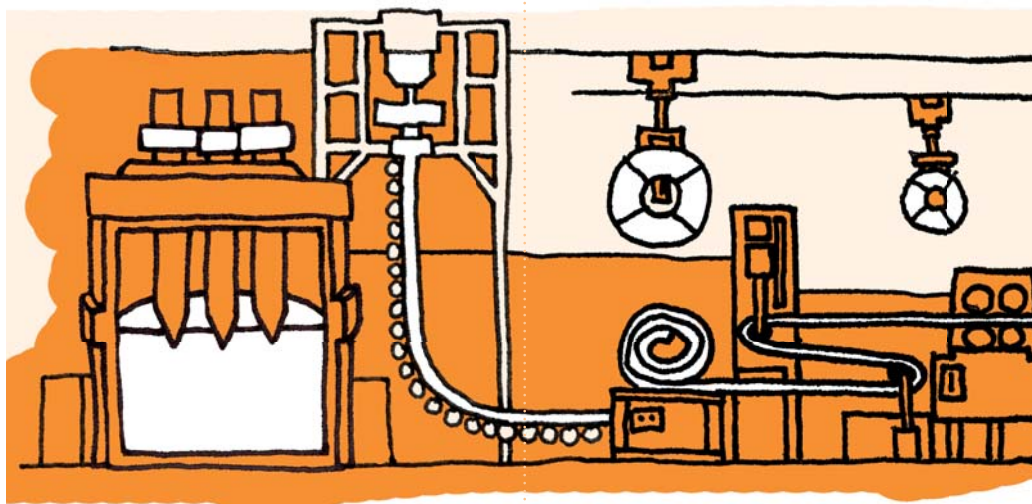
Horacio Malfatto
Chief Executive Officer of NLMK Europe

Operating companies	Products	End uses
NLMK Europe Strip 3 NLMK La Louvière 1 NLMK Coating 4 NLMK Strasbourg	Hot-rolled, pickled, and full hard steel; cold-rolled, galvanized, and pre-painted steel	Automotive, machine-building, pipe manufacturing, service centres and construction in Europe
NLMK Europe Plate 6 NLMK DanSteel 2 NLMK Clabecq 5 NLMK Verona	Forged ingots, thick plates, including quenched and tempered plates	Energy, machine-building (incl. yellow goods, pipe, shipbuilding, wind power) in European and global markets



2012 highlights:

- 46% capacity utilization in flat steel production
- 55% capacity utilization in heavy plate production
- 2.8 mt NLMK Group sales to the EU market (19% of total sales)
- US\$0.2 bn in capex (including NLMK USA)
- 89% of processed slabs were supplied by Novolipetsk
- 1.2 mt of flat steel production
- 0.9 mt of plate production
- € 592 per tonne average sales price for NLMK Europe Strip
- € 680 per tonne average sales price for NLMK Europe Plate



Midstream

1%

Share of NLMK Europe in total operations

Assets

- NLMK Verona

Downstream

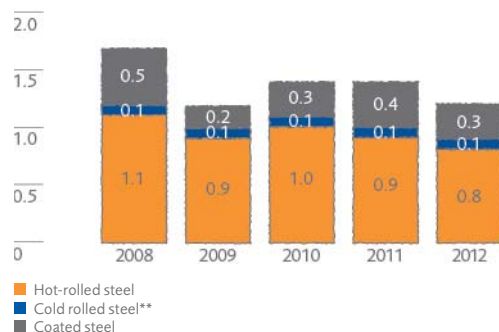
20%

Share of NLMK Europe in total operations

Assets

- NLMK Europe Strip
- NLMK Europe Plate

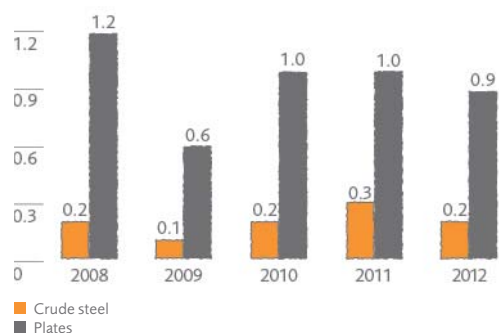
NLMK Europe Strip performance* (mt)



* Operating data from 2007 to 2011 is calculated based on the data for the companies comprising NLMK International (NLMK Europe and NLMK USA) as at the end of 2012

** including full hard steel

NLMK Europe Plate performance* (mt)



* Operating data from 2007 to 2011 is calculated based on the data for the companies comprising NLMK International (NLMK Europe and NLMK USA) as at the end of 2012

About NLMK Europe

NLMK's business model is unique in Europe and is based on the efficient supply of semi-finished products from Russia to European assets for the manufacture of HVA products close to key customers. This business model has stood the test of time: the Company introduced it for NLMK DanSteel in 2002, and then in 2011 it acquired an additional five rolling assets.

To date, NLMK Europe comprises six NLMK Group production facilities in Europe. The NLMK Europe Strip sub-division specializes in the manufacture of high-quality hot-rolled, cold-rolled, and coated steel. NLMK Europe Plate produces a wide range of heavy plate, including the unique Quard and Quend brands.

NLMK Europe has approximately 2,900 employees.

NLMK Europe operating performance

Divisions/Assets of NLMK Europe	Output in 2012 (mt)	Output in 2011 (mt)	Change (%)
NLMK Europe Strip			
NLMK La Louvière	Hot-rolled steel: 0.80	0.93	-14%
NLMK Coating	Cold-rolled and full hard steel: 0.06	0.09	-34%
NLMK Strasbourg	Galvanized steel: 0.26	0.30	-15%
	Pre-painted steel: 0.07	0.06	+2%
	Total finished products: 1.18	1.39	-15%
NLMK Europe Plate			
NLMK DanSteel	Steel: 0.21	0.27	-23%
NLMK Clabecq	Forged ingots: 0.07	0.06	+7%
NLMK Verona	Heavy plate: 0.92	1.03	-11%
	Total finished products: 1.0	1.1	-11%

NLMK Europe Strip

Assets

NLMK Europe Strip comprises three production sites located in France and Belgium. The assets function as a unified production and economic sub-division, efficiently processing slabs supplied chiefly by Novolipetsk into finished products: hot-rolled, cold-rolled, hot dip, and electro-galvanized steel, as well as coated steel. The product quality meets the ISO 9001 and TS 16949 international standards.

The facilities are located close to the key sales markets (Germany, France, Benelux), ensuring logistical efficiency and high-quality customer service. The automotive, machine building, tube and pipe and construction sectors are the unit's key customers.

NLMK La Louvière

NLMK La Louvière has a production capacity for hot-rolled steel of 2.4 mt/y. The Belgian company produces a wide range of steel products, including hot-rolled, pickled and full hard, and cold-rolled steel. Some NLMK La Louvière products are sold to end consumers; the rest are supplied to other division companies – NLMK Coating and NLMK Strasbourg – for further processing in the cold rolling and coating units.

NLMK Coating

NLMK Coating is the downstream facility for coated products. It manufactures a broad range of cold-rolled and electro-galvanized steel products. The substrate is supplied by NLMK La Louvière and is used by the French company in the production of full hard steel, which, in turn, is used in the manufacture of electro-galvanized products.

NLMK Strasbourg

NLMK Strasbourg's production assets include the production facilities for hot dip galvanized steel and pre-painted steel. Hot dip galvanized products are made from full hard steel supplied by NLMK La Louvière.

Performance in 2012

The decline in demand on the European flat steel market in the second half of 2012, amid a general fall in industrial production in the region, had a negative impact on the division's operating performance. Production of rolled products decreased by 15% to 1.2 mt. The rolling facilities at NLMK Europe Strip processed about 1.2 mt of slabs, of which 1.0 mt (84%) were supplied by Novolipetsk.

The main consumers in 2012 were European automotive manufacturers and the construction sector, with most supplies going to companies in Western and Northern Europe (France, Germany, the Netherlands, Belgium and the UK). By improving product quality, we were able to maintain sales of premium grades of steel at the 2011 level.

Corporate responsibility activities

In developing environmental projects, each of the European companies works on the basis of the ISO 14001 international standard. NLMK Strasbourg received its ISO 14001 certification in the mid-1990s; NLMK Coating was certified in 2001. NLMK Europe's current priorities are to reduce energy consumption and to improve the environment. All facilities are working to increase the energy efficiency of production, improve wastewater treatment and improve the control of hazardous substances. In particular, investments in the installation of new heating furnaces allowed to simultaneously reduce CO₂ emissions and cut the consumption of natural gas.

NLMK Europe seeks to develop a responsible, long-term environmental policy that will meet the interests of employees and local residents, as well as those of shareholders and customers. It is expected that by the end of 2013, investments in environmental projects will total € 15 million.

Strategic priorities for 2013

Due to the deteriorating economic conditions and the unfavourable situation on the European steel market, combined with the absence of the preconditions for a rapid recovery in demand, NLMK Europe Strip has embarked on a project to restructure its NLMK La Louvière assets. This project is currently under discussion, in particular the possibility of further job cuts, which will reduce costs and improve the competitiveness of hot-rolled and pickled steel production.

2013 goals:

- Maximizing sales of finished products
- Ensuring high-quality products and a high level of customer service
- Improving operating efficiency
- Reducing semi-fixed costs throughout the production chain
- Optimizing working capital

NLMK Europe Plate

Assets

NLMK Europe Plate has a total production capacity of 1.9 mt/y at its three production sites: NLMK Clabecq, NLMK Verona, and NLMK DanSteel. Its share of the European plate market is estimated at 6%. The synergies between the three facilities allow NLMK to enter new markets and to increase its presence in the global plate market, thereby reducing its susceptibility to fluctuations in the European steel market while, at the same time, offering consumers a wide range of high-quality niche products, including specialized types and brands of rolled product.

NLMK Clabecq

NLMK Clabecq produces a wide range of plates, from construction steels to high value added steels, ranging from 3 to 120 mm in gauge for pipe manufacturing, the oil and gas industry, and machine building. The company is conveniently located at the hub of a number of major Belgian motorways and railway lines, and is just a short distance from the port of Antwerp, allowing it to easily dispatch plates to the global marketplace. NLMK Clabecq's plate production capacity is 0.95 mt/y.

NLMK Verona

NLMK Verona specializes in the production of high-quality steel plate with a gauge of 20 mm to 1000 mm and ingots for forging. The Italian company operates a one-of-a-kind continuous casting machine that produces billets up to 500 mm thick. Its plate production capacity is 450,000 t/y, supplied to key sectors, including oil and gas, machine building, automotive manufacturing, and heavy equipment.

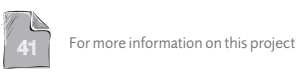
NLMK DanSteel

With a production capacity of 0.55 mt/y, NLMK DanSteel produces a wide range of 5-200 mm gauge plates. The Danish company's key customers are mainly in northern Europe: manufacturers of wind turbines, drilling platforms and 'yellow' goods, shipbuilders, and infrastructure construction companies.

Performance in 2012

Production results were largely determined by the downturn in the European steel market. In 2012, amid unfavourable market conditions on the European steel market and lower prices for heavy plate, production fell by 11% to 0.9 mt.

The operating results were also affected by the overhaul of NLMK DanSteel's rolling capacity. Upon its completion in Q4 2012, a new mill for the production of thick plate began operation, allowing the company to expand its product line and to produce plate up to 4000 mm wide. Following the start-up of this new mill, NLMK DanSteel has continued to deliver products to its traditional customers but has also entered new market sectors.



In 2012, another of the division's companies, NLMK Clabecq, launched a new quenching and tempering line, increasing volumes in the new production facilities with the simultaneous development of the new Quard (abrasion-resistant steel) and Quend (high-strength steel) product ranges. During 2012, NLMK Verona brought its facilities for the heat treatment of steel to full capacity, including a line for normalizing, annealing, and quenching and tempering, as well as new lines for strip slitting.

Over the year, the rolling capacity of NLMK Europe Plate consumed 1.0 mt of slabs, approximately 0.9 mt (90%) of which were supplied by Novolipetsk. Plate sales were mainly to European countries (including Germany, Denmark, Sweden and Italy), as well as international markets, such as the Middle East.

Corporate responsibility activities

NLMK Europe Plate prioritizes corporate responsibility, including the implementation of environmental protection measures and measures to safeguard the health and safety of employees.

In particular, NLMK Clabecq participated in the EU GESIM* competition for steelmakers, which is a long-running industrial safety competition. This competition takes place in France and adjacent regions. Over the year, the Commission compares various indicators, from accident statistics to cleanliness in the workplace. The main reason for the contest's popularity is the reduction in the number of accidents within participating companies. A few years ago, when NLMK Strasbourg took part in the contest, the annual accident total fell to zero.

In developing environmental measures, NLMK Clabecq is seeking to use the ISO 14001 international environmental standard as a foundation. It is expected that the company will receive this certification in the near future.

* GESIM – Le Groupement des Entreprises Siderurgiques et Metallurgiques – The Association of Ferrous and Nonferrous Metallurgy Companies (Fr.)

Strategic priorities for 2013

Given the current economic uncertainty in the European market and the predicted weak development in 2013, NLMK Europe Plate plans to strengthen its competitive position through developing new steel grades and by gaining new markets. In the offshore oil and gas platform construction sector, NLMK Europe Plate intends to focus on the markets of Scandinavia, the UK and Germany. Consumers in the offshore wind industry will be offered plates of up to 30 tonnes. For the shipbuilding industry, the company is developing the production of steel suitable for use in harsh weather conditions (grades 40 and F).

There are also plans to broaden the geography of sales for products made on the quenching and tempering line, to strengthen the division's presence in thick plate produced for the oil and gas industry and 'yellow goods', and also to become a major player in the area of wide and thin plates starting at 3 mm thick. Using Novolipetsk slabs produced by new steelmaking facilities, NLMK Europe Plate is also planning to develop new grades of steel with an abrasion resistance of up to 550 HB and a strength of up to 1100 MPa at the NLMK Clabecq site.

In 2013, NLMK Verona will implement a cost-reduction programme, focusing chiefly on reducing inventory levels. The company also plans to increase the level of integration with the Lipetsk site, replacing its own slab production with slabs produced at Novolipetsk.

How NLMK DanSteel works

NLMK DanSteel is the Group's manufacturer of thick plates in Europe. Its key customers are machine building and utility companies, as well as the shipbuilding and construction industries. NLMK DanSteel is strategically located and has its own port, enabling the delivery of products to customers 'just in time'. The facility's requirements for slabs are met by the Group's Lipetsk site. Its production capacity is approximately 550 kt/y.

The main production stages at the company are:

- 1) Hot rolling.** Slabs are heated in reheating furnaces and hot rolled in a reversing mill.
- 2) Levelling.** The resulting plate is flattened in a hot leveller.
- 3) Normalizing.** After cooling, the levelled plates can be normalized (heated in a furnace with air cooling) and treated in the cold leveller.

4) Slitting. At this stage, the plates may be flame cut to the required size or they may be processed on the mechanical slitting line.

5) Finishing. At the end of the manufacturing process, the plate can be processed according to customer requirements by shot blasting, in which scale is removed from the surface of the plate and primer paint applied to protect the product from corrosion.



2013 goals:

- Producing new product types
- Expanding geographical presence, gaining access to new markets
- Strengthening position in key markets
- Reducing costs
- Improving integration with the Lipetsk site



Robert Miller
President, NLMK USA

From 1996 to 1998, he worked at Caparo Steel as the head of the Treasury Group. In 1998, he joined Duferco as Treasurer (Finance Manager) for the Group's US companies. From 2003 to 2011, he served as Executive Vice President and Chief Financial Officer of the Duferco Farrell Corporation, and later NLMK USA. In 2011, he was appointed President of NLMK USA, responsible for the Corporate Services Group.

He holds a degree in Business and Finance from Pennsylvania State University, and a Master of Business Administration (MBA) from Duquesne University (Pittsburgh).



Paul Fiore
President and Chief Operating Officer, NLMK USA

He has more than 30 years' experience in the industry, beginning his career at Sharon Steel Corporation in 1981. In 1998, he became Vice President of Operations for Duferco Farrell Corporation, and was later appointed as President of the Duferco Farrell Corporation and Sharon Coating. Since March 2010, he has been President and Chief Operating Officer of NLMK USA.

He holds a degree in Sociology from Thiel College (Greenville).

NLMK USA has a diversified asset base for the production of flat steel and consists of three companies – NLMK Indiana, NLMK Pennsylvania and Sharon Coating – producing slabs, hot-rolled, cold-rolled and galvanized steel.

"This has been another very important year for the Division: we continued to expand our product mix and to optimize our systems and processes. The Division companies were able to demonstrate to the market place that we are consistent and reliable suppliers and, hence, we have been able to increase our market share. In 2013, NLMK USA will continue to focus on growing its production and sales volumes."

Robert Miller
President of NLMK USA

"2012 has turned out to be a very special year for all three NLMK USA production facilities. The continuing focus on the operational structure and equipment reliability has led to numerous annual records being established, including for steel and rolled product output at NLMK Indiana and specialty product output at NLMK Pennsylvania. Quality and Safety continue to be a focus for all facilities. With the investments planned for 2013, we will be able to set further new records and solidify the Division's position in the USA end-product market."

Paul Fiore
President and Chief Operating Officer of NLMK USA

Operating companies

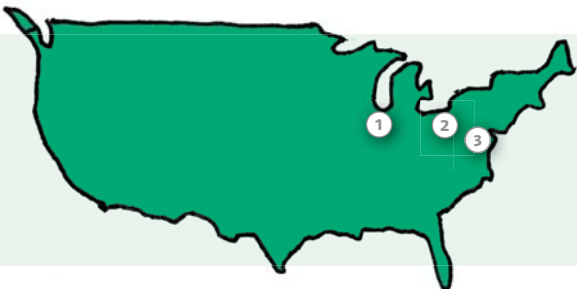
- 1 NLMK Indiana
- 2 NLMK Pennsylvania
- 3 Sharon Coating

Products

Slabs, hot-rolled, cold-rolled, and galvanized steel

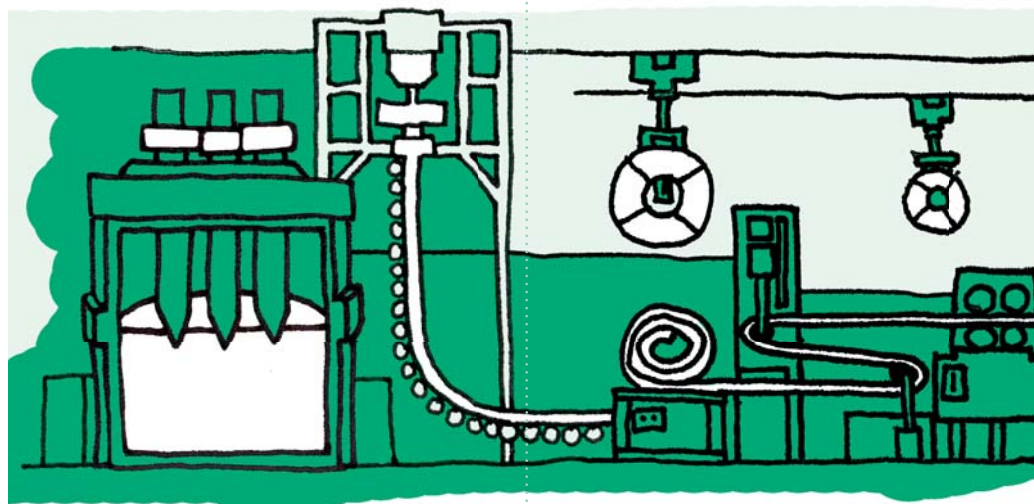
End uses

The construction sector, pipe manufacturing, machine-building, service centres, and trading companies in the USA



2012 highlights:

- 94% utilization of steelmaking capacities
- 61% utilization of rolling capacities
- 2.2 mt NLMK Group sales in North America (14% of total sales)
- 29% of processed slabs were supplied by Novolipetsk
- 0.7 mt of steel production
- 1.8 mt of flat steel production
- US\$770 per tonne average sales price EXW



Midstream

5%

Share of NLMK USA in total operations

Assets

- NLMK Indiana

Downstream

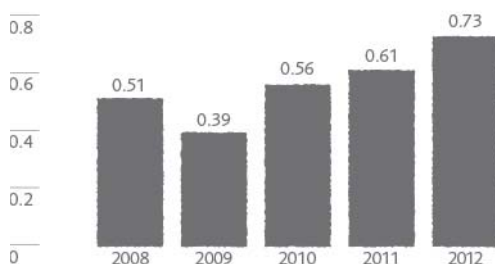
16%

Share of NLMK USA in total operations

Assets

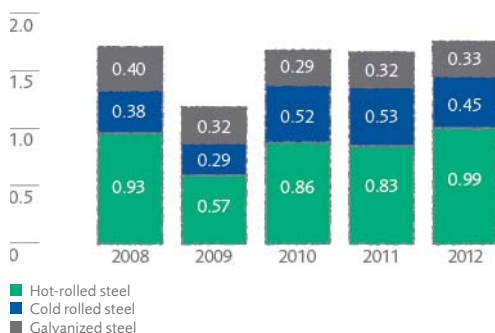
- NLMK USA division

NLMK USA crude steel output* (mt)



* Operating data from 2007 to 2011 is calculated based on the data for the companies comprising NLMK International (NLMK Europe and NLMK USA) as at the end of 2012

NLMK USA flat product output* (mt)



■ Hot-rolled steel
■ Cold rolled steel
■ Galvanized steel

* Operating data from 2007 to 2011 is calculated based on the data for the companies comprising NLMK International (NLMK Europe and NLMK USA) as at the end of 2012

About NLMK USA

NLMK USA includes NLMK Indiana, a manufacturer of steel and hot-rolled products; NLMK Pennsylvania, a manufacturer of hot-rolled and cold-rolled steel; and Sharon Coating, a producer of galvanized steel. Together, they constitute a single production mechanism, providing the Group with additional advantages on the US market thanks to an efficient business model, a common sales structure, a broad portfolio of high-quality products and a loyal customer base.

The division's combined steelmaking capacity is 0.8 mt/y, with a rolling capacity of 2.9 mt/y. NLMK USA's key customers are construction companies, pipe manufacturers and machine building.

Assets

NLMK Indiana

NLMK Indiana is a manufacturer of steel and hot-rolled products. The company operates an electric arc furnace with a capacity of 0.77 mt/y and a hot strip mill with a capacity of 1.09 mt/y. The company is geographically well-situated to maximize access to raw materials (scrap), as well as demand from, and prompt delivery to, the company's customers. NLMK Indiana sells hot-rolled steel, primarily to the pipe and tube industry and to manufacturers of high value added steel products. Some of the company's products (slabs and hot-rolled items) are shipped to NLMK Pennsylvania for further processing into hot- and cold-rolled steel.

NLMK Pennsylvania

NLMK Pennsylvania is a producer of carbon steel, including hot-rolled, cold-rolled and full hard products, as well as other cold-rolled finished products. The plant has a capacity of 1.81 mt/y of hot-rolled steel. NLMK Pennsylvania's key customers include pipe and tube manufacturers and service centres. The company's share of the high-carbon cold rolled steel market is about 29%. Some of the products are sent to Sharon Coating for further processing into galvanized steel.

Sharon Coating

Sharon Coating is a producer of hot dip galvanized steel in a range of product types that include extra-deep drawing, high-strength, dual phase, and Bake-Hardenable (BH) steels. The company operates three hot dip galvanizing lines with a total annual capacity of 0.82 mt.

NLMK Pennsylvania is the key substrate supplier for Sharon Coating. The effective cooperation of assets within the same division allows an expansion of the customer base through flexible pricing of products made from NLMK Pennsylvania's cold-rolled steel.

NLMK USA operating performance

Assets of NLMK USA	Output in 2012 (mt)	Output in 2011 (mt)	Change (%)
NLMK Indiana	Steel: 0.73	0.61	+19%
NLMK Pennsylvania	Hot-rolled steel: 0.99	0.83	+18%
Sharon Coating	Cold-rolled steel: 0.45	0.53	-15%
	Galvanized steel: 0.32	0.32	+4%
	Total finished products: 1.76	1.68	+5%

NLMK USA

Performance in 2012

In 2012, production increased by 5% to 1.8 mt. NLMK Indiana again achieved record levels of steel production: 726,000 t, an increase of 19% year-on-year. Production of hot-rolled steel increased by 18% to 1.0 mt.

The strong performance was due to measures aimed at improving operational efficiency, expanding the product line, strengthening market positions and expanding the Company's presence in emerging markets for high-carbon steel products and the pipe and tube industry.

The 15% year-on-year drop in production of cold-rolled products was caused by the downward price trend for this type of product on the US market, which was partly offset by the increased production of galvanized steel (+4% year-on-year).

The division mainly supplied the automotive industry, the heavy machinery sector, the pipe and tube industry and service centres.

The key components in the division's successful operation are high production efficiency, supplying 'just in time', and fast order processing. This is possible due to an uninterrupted supply of semi-finished products, including those produced by the plant's own steelmaking capacity, softening the impact of the growing price volatility for key raw materials and generating profits even amid volatile demand in the steel market. The rolling assets acquired in 2011 – NLMK Pennsylvania and Sharon Coating – are increasing their level of integration with other Group businesses. Thus, in 2012, NLMK Pennsylvania significantly increased the amount of slabs it purchased from NLMK: the company consumed 0.7 mt of slabs produced at the Group's main production site, a threefold increase over 2011 (0.2 mt).

Corporate responsibility activities NLMK Indiana

Several key processes have recently been implemented to both inform and manage our compliance responsibilities. As a result, all our reporting is up to date, record keeping is accurate, and no notices of violation have been issued by the Indiana Department of Environmental Management. NLMK Indiana continues to search for creative solutions to the problems associated with solid waste and its disposal. Experiments are underway to recycle a large portion of this material into a product that is usable to steel makers.

NLMK Indiana is also in the process of completely revisiting its storm water pollution prevention plan and oil control plan. The main features are an entirely new storm water handling system for a large parcel of the site, and the creation of an indoor used oil handling facility. Striving to be a good neighbour by participating in the local community organizations and by providing support to the community where needed, in 2012 NLMK assisted the Portage Fire Department by supplying funds to purchase equipment for its ambulances so that better care can be provided to those in urgent need.

NLMK Pennsylvania & Sharon Coating

In 2012 there were no notices of violations issued to the facilities. We improved the 60" Hot Strip Mill Recirculation Water System with the completion of installation of a new cooling tower. We are also working on improving all residual waste storage locations. As part of this project, a new building will be installed at the Hot Strip Mill in 2013 for the onsite storage of residual waste drums prior to pick up and disposal offsite.

NLMK Pennsylvania and Sharon Coating actively participate in the local community life. For instance, our employees participated in the 2012 American Heart Association Heart Walk – the Association's premiere event for raising funds to save lives from heart disease and stroke. Each year NLMK Pennsylvania offers five US\$ 1,000 academic scholarships to students at Sharon High School and Farrell High School.

Strategic priorities for 2013

In 2013, NLMK Indiana will launch new facilities for electric arc furnace steel production, slab casting, and flat steel production. The company is also implementing measures to improve occupational health and safety, reliability, quality and performance.

The division's other facilities are planning to increase operational efficiency, improve product quality, and enhance integration with other assets of the NLMK Group.

NLMK Indiana beats all-time production records

NLMK Indiana in 2012 attained record new steel production levels, the highest since it was founded in 1992. Although impressive production and occupational health and safety records were set in 2011, they were all broken in 2012 – some by a large margin.

In 2012, NLMK Indiana set 12 new records for safety, product quality and production volume. Most notably, steel production saw a year-on-year increase of 19%, while the manufacture of Hot Rolled Coil (HRC) increased by 18%. Meanwhile, the company's Electric Arc Furnace (EAF) capacity utilization reached a record level of 94.2% (+15 p.p. year-on-year).

The record indicators demonstrated by the company year after year are the best confirmation of the effectiveness of the measures taken to optimize operations at NLMK Indiana.

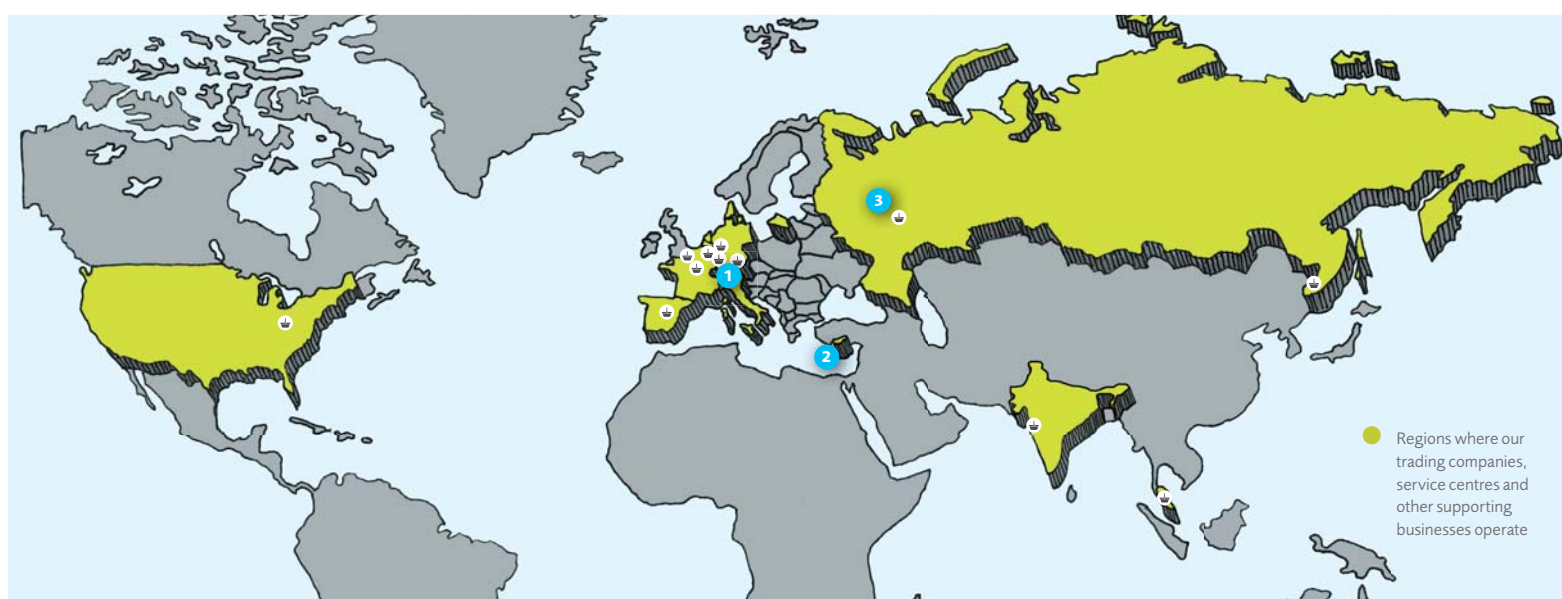


2013 goals:

- Improving operating efficiency
- Increasing productivity
- Improving product quality and service
- Shortening lead times
- Increasing integration across the division and NLMK Group

Supporting businesses

In addition to operating companies, the NLMK Group includes a number of supporting businesses, including trading companies and service and distribution centres that, by providing maximum flexibility and rapid response to changes in market conditions, enable NLMK to increase sales volumes, strengthen its market position and optimize commodity flows.



Supporting companies	Area of activity	Performance in 2012, change y/y (%)
Trading Operations 1 Novex Trading 2 Novexco 3 NLMK Trading House	Sales of products on domestic and export markets Sourcing of POL, ferroalloys and non-ferrous metals, auxiliary materials and production equipment; sales of various types of by-products (granulated slag, coke-chemical products)	6.1 mt sales of steel produced by NLMK Russia (+5%) 77% share of purchases for NLMK Group (78% in 2011)
Network of service and sales centres	Processing and sale of steel products	0.3 mt of steel products processed 0.3 mt of steel products sold
Trading Novex Trading and Novexco Novexco (Cyprus) and Novex Trading (Switzerland) help to provide an effective sales system and to optimize the Group's commodity flows. These companies have extensive experience in steel trading, they operate with a vast client base and cooperate closely with end-customer agents and representatives, thereby improving control over exports. NLMK Trading House The NLMK Trading House is responsible for consolidated supplies of some raw and ancillary materials to NLMK Group, as well as selling various products for NLMK companies.	Service and distribution centres NLMK includes 17 service and sales centres. They are located in 11 countries on 3 continents. Their main function is the sale of the company's products, as well as the processing of steel according to the end user orders. In 2012, new service centres were opened in Mumbai, Pennsylvania, and Singapore, which will strengthen the Company's position in promising Asian and North American markets. Performance in 2012 Novex Trading and Novexco In 2012, the trading companies sold 6.1 mt of steel produced by the Russian production facilities, and also made export sales of iron ore, coke, and chemical products.	NLMK Trading House In 2012 the share of purchases for NLMK Group in NLMK Trading House revenue was 77%. The company also manages the sales of some sideline products of NLMK businesses, including via back-to-back deals with raw materials suppliers. This accounted for 21% of NLMK Trading House's revenue in 2012. In 2012, raw material and input supplier sourcing procedures for a total of more than RUB 1.7 billion (US\$ 55 million) were managed through NLMK Group's corporate electronic trading facility (www.td-nlmc.ru). NLMK Trading House provides the methodological and data support for this electronic resource.

Responsible leadership is part of the strategy

The Company sees its social mission as the achievement of sustainable development that is in the long-term economic interests of the business and contributes to the social well-being of citizens, to the protection of the environment and pays respect to human rights in regions where the Group operates.

Our CR objectives

CR areas

The key aspects of our approach to corporate responsibility are:

- Cooperation with all stakeholders.
- Occupational health and safety.
- Development of our employees and protection of their rights.
- Interaction with the community and development within the regions where the Group operates.
- Environmental activities.

CR strategic objectives

The combined efforts of the Company, its employees and local communities seek to achieve the following strategic objectives:

- Creating a favourable and stable socio-economic environment for employees and local residents.
- Improving corporate governance mechanisms in the Company's economic, environmental, and social activities.
- Complying with international and national standards for the protection of the environment with a focus on the best modern technology.
- Acting in accordance with the principles of business ethics.
- Creating new products which meet customer expectations.
- Creating the conditions necessary to ensure high employee productivity.
- Ensuring sustainable improvements in employee welfare and social security; creating a safe environment in the workplace.
- Preventing human rights violations and promoting compliance with current workplace legislation.

How we manage CR

NLMK's corporate responsibility management system is a multilevel structure that includes various positions of corporate management, from strategic decision-making to specific objectives at each individual production site in the areas of Human Relations (HR), community interaction, and the environment.

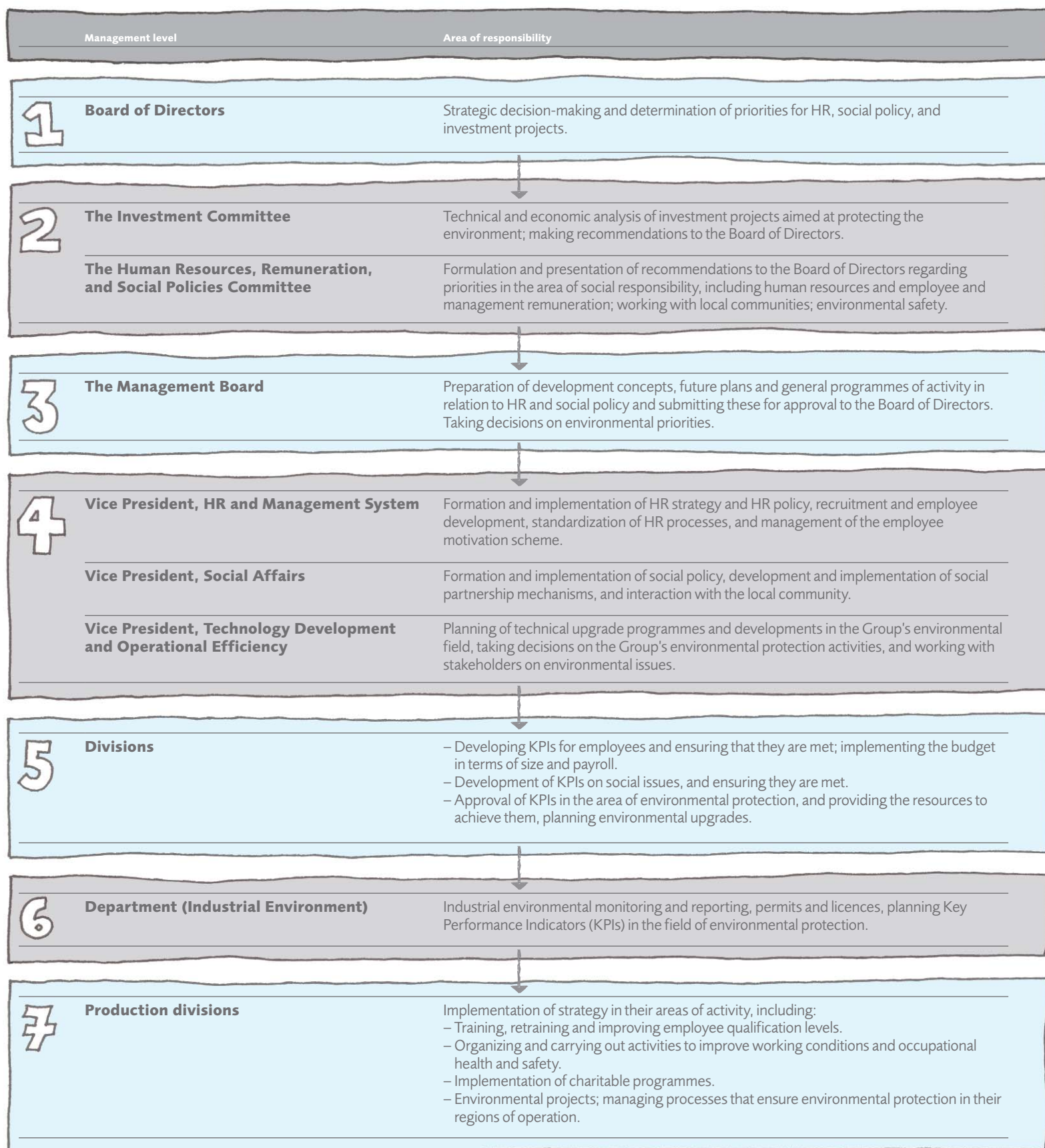
Strategic decisions on HR, social, and environmental policies are taken by the Board of Directors.

The Human Resources, Remuneration, and Social Policies Committee, the Investment Committee, and the Management Board develop and present recommendations to the Board of Directors.







Vice Presidents are responsible for establishing HR, social, and environmental policies in their areas of responsibility, and for monitoring their effectiveness. Division heads develop key performance indicators, ensure that they are met and monitor the implementation of individual projects by the production units. The latter, in turn, put the strategies adopted into effect in various areas of their activity, taking decisions on current issues and projects.



For more information on our corporate responsibility please visit the CR section of our website: <http://nlmk.com/sustainability/overview>



Our CR performance against objectives

Key CR area	2012 goals	Performance in 2012	Performance against goals	2013 goals
Stakeholder engagement   For more information	Improvement of the stakeholder engagement system.	The Group regularly analyzed the opinions of key stakeholders through surveys and consultations, and interacted with them through negotiations, meetings, working groups and standing commissions.	✓✓	Further development of cooperation with stakeholders, improvement of existing approaches to dialogue with a view to more quickly identifying and resolving bottlenecks.
Health and safety   For more information	Implementation of measures designed to create healthy and safe working conditions for Company employees.	Expenditure on occupational safety measures amounted to US\$ 20 million. Upgrade of working conditions for 1,900 employees at the Group's Russian facilities. Reduction of the number of fatal accidents to seven.	✓✓	Implementation of measures to ensure safe working conditions for company employees with the aim of reducing workplace injuries and eliminating fatal accidents. Promotion of basic safety standards at the Group's sites; training employees in key aspects of occupational safety.
Employees and human rights   For more information	Improving the motivation scheme for Company employees.	Average wages at the Group's Russian companies increased by 12%.	✓✓	Improvement of the material and moral incentive scheme.
	Development and improvement of HR procedures at the Group's subsidiaries, bringing them all up to the same corporate standard.	In 2012, around 47,000 Group employees underwent professional training.	✓✓	Further development of HR procedures at all subsidiaries to bring them up to the same corporate standard.
	Continuation of the practice of collective bargaining at NLMK Group companies and ensuring compliance with collective agreements.	In 2012, the Group's companies essentially met all of their obligations under collective agreements.	✓✓	Continuation of the practice of collective bargaining at NLMK Group and ensuring compliance with collective agreements.
	Headcount optimization at NLMK.	NLMK Group employee numbers increased 3%, while steel production rose by 25%. The growth in productivity for the Group was 20% compared to 2011.	✓✓	Continued headcount optimization in accordance with the best international practices in order to increase productivity.
	Implementation of the second and third stages of the introduction of key performance indicators (KPI). Cost management to meet target levels based on best practice.	NLMK has created an automated KPI system. The cost of steel produced by the Group is one of the lowest in the world (US\$ 388/t).	✓	Expansion of the system scope to include NLMK Russia Long companies. Increase in the number of business processes covered by the KPI system.

Key CR area

Community and people



For more information

2012 goals

Implementation of programmes aimed at social and economic development in the regions where we operate.

Performance in 2012

Social investment and development in the regions where we operate totalled US\$ 68 million, with more than US\$ 12 million given to charities.

Performance against goals



2013 goals

Continued implementation of measures to promote sustainable development in the regions where we operate, and maintenance of a stable socio-economic environment in local communities.

Environment



For more information

Continued implementation of environmental protection measures to reduce our negative impact on the environment.

Investments in environmental measures in 2012 amounted to US\$ 77 million.



Start of projects in phase 3 of the Environmental Protection Programme for 2013–2016.

Reduction of negative impact on the environment in regions where the Group operates.

Specific atmospheric emissions were 22.6 kg/t of steel, which is 19% lower than in 2011.



Further reduction of negative environmental impact in regions where the Group operates: reducing emissions per tonne of steel, reducing water consumption and discharge of pollutants into watercourses, high level of recycling for industrial waste, and further improving energy efficiency.



The goal set for 2012 has been achieved



The goal set for 2012 is in the process of being achieved

Stakeholder engagement



NLMK sees corporate responsibility as a systematic activity involving the selection and application of methods that will promote the best possible interaction with key stakeholders and allow us to adopt mutually beneficial solutions, taking into account the interests of different stakeholder groups.

In determining key stakeholders, the Group takes into account the degree of their impact on NLMK Group. Therefore the Group's key stakeholders include our employees, governments and regulators, shareholders and investors, community and trade unions, consumers of our products and residents of the regions where the company operates, including potential employees.

Employees

We are conducting an ongoing dialogue with our employees in order to create a constructive work environment and to encourage close collaboration between employees within the Company.

Governments and regulators

Regulators and governing authorities are engaged in ongoing dialogue with the Company. In our discussions with the authorities, we aim to give a complete picture of the approaches we take in our work. We participate in discussions on various issues, including legislation and lawmaking. As part of this dialogue, the Group promotes open and highly

transparent cooperation with regulators on environmental impacts, which is reflected in the growing number of environmental audits carried out at our facilities.

Investors

As a public company, we believe that our main priority is to ensure that investors have a comprehensive understanding of our business and an accurate assessment of our performance. During each financial year, we hold regular meetings with investors and brokers in order to provide the most detailed representation of the Company possible, including its corporate governance and social responsibility programmes.

NGOs

The Company continues its close dialogue with public and charitable organizations, supplying information on the Company's strategy and approaches, as well as results and other indicators related to social development and environmental impact.

Trade unions

We work closely with trade unions, discussing any changes that may affect our employees, and advising them on the development of the business at regional meetings and at events held at the Group's sites.

Customers

We strive to strengthen our relationship with our customers, which is built on trust, studying consumer reviews and opinions of our products. We are developing new types of steel that can significantly extend product use and the range of their applications in daily life.

Local communities

We provide support to local communities in the regions where we operate, since we realize that our businesses have a significant and wide-ranging impact on them. Our goal is to maintain continuous dialogue with communities, to ensure that we manage our Company's social, economic, and environmental impacts on community life appropriately.

Performance in 2012

We are in constant communication with all relevant parties, conducting interviews and consultations, and organizing meetings and discussions to consider specific issues, as well as a number of other initiatives. Experience gained in dialogue with stakeholders allows us to identify the most significant aspects of the Group's interaction with the environment, including the risks that accompany our activities. By developing a system of stakeholder interaction, we are able to quickly identify problems and find appropriate step-by-step solutions.

Stakeholder engagement

Interaction with stakeholders is an integral part of our business processes, allowing us to demonstrate openness, to promote an atmosphere of mutual trust and to minimize risks.

Performance in 2012*

- 150 round tables, workshops and conferences
- About 800 site visits
- 25 projects with GOs and NGOs

2013 goals

- Improvement in approaches to dialogue with various groups of stakeholders
- Development of effective mechanisms for identifying emerging issues and addressing them in a mutually beneficial and prompt manner
- Improvement of information transparency

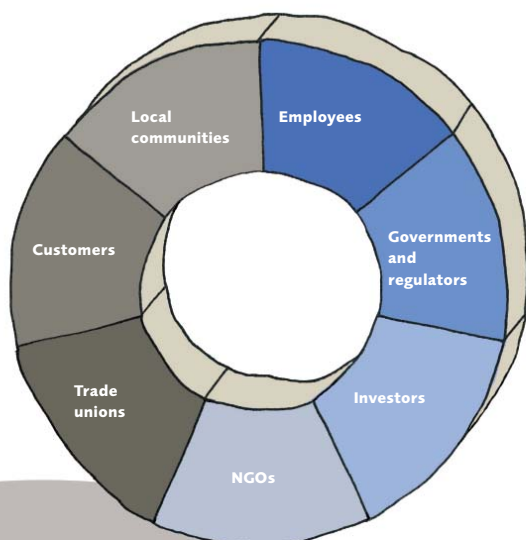
* Data for Novolipetsk

One of the important tools used by the Company to interact with stakeholders is the preparation and publication of an annual report on sustainable development. Having published social reports since 2006, the Group strives to provide stakeholders with the most detailed information possible regarding the Company's development strategy, management systems and the results of our activities that have a social impact. This is a prerequisite for the development of constructive dialogue.

Strategic priorities for 2013:

- Improvement of the stakeholder engagement system
- Implementation of programmes aimed at socio-economic improvements in the regions where we operate
- Development of charitable activities
- Maximum satisfaction of customer requirements as reported in customer satisfaction surveys
- Improvement of information transparency

Key stakeholders



Health and safety



"As a 21st-century steel company, people are our main asset. They enable the Group to stay ahead of its competitors, to provide operational stability and to improve living conditions in the regions where we operate. Every day, 63,000 skilled workers help us to strengthen our leading position in the steel industry. I am pleased to note that, in return, our Group provides opportunities for professional and career development, cares about improving working conditions and strives to improve the safety of its employees."


Stanislav Tsyrlin
Vice President, HR and Management System

From 2004 to 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.

Occupational safety is one of the key priorities for the NLMK Group in the area of corporate responsibility. The Company is responsible for the preservation of the life and health of its employees since it utilizes hazardous processes within its technological units. The current system of occupational health and safety has been developed in accordance with best international practice.

The Group makes every effort to organize production in a way that complies with state and internal requirements for occupational health and safety and the implementation of measures to prevent accidents, injuries, and occupational illnesses. All of these efforts allow us to minimize the number of accidents and injury rates at Group sites.

 The Company has an occupational health and safety policy in place. Key points are published on our corporate site at [http://nlmk.com/docs/treeru/industrial-safety-policy-of-nlmk-\(rus\)-политика-о-о-нлмк-в-области-охраны-труда-и-промышленной-безопасности.pdf](http://nlmk.com/docs/treeru/industrial-safety-policy-of-nlmk-(rus)-политика-о-о-нлмк-в-области-охраны-труда-и-промышленной-безопасности.pdf)

Performance in 2012
As part of measures to improve production safety and to reduce accidents at work, 'Say Yes to Safety' posters and 'Occupational Safety' boards were placed in the units at Novolipetsk, and a documentary film on the prevention of occupational injuries was made and shown at the plant.

In 2012, the company upgraded working conditions for 612 employees at Novolipetsk and 1300 employees in the Group's other Russian companies (VIZ-Steel, Altai-Koks, etc.).

Health and safety
Performance in 2012

- RUB 631 million (US\$ 20 million) in expenditures on occupational safety measures*
- Lost Time Injury Frequency Rate (LTIFR) 0.86 in 2012 (0.86 in 2011)
- 80 accidents (+4 y-o-y)*

Key projects in 2012

- Measures to prevent accidents and to improve occupational safety
- Seminars for those who violate occupational safety rules
- Implementation of measures to equip particularly hazardous areas
- Implementation of measures to improve working conditions at the Group's facilities

2013 goals

- Further reductions in occupational injuries

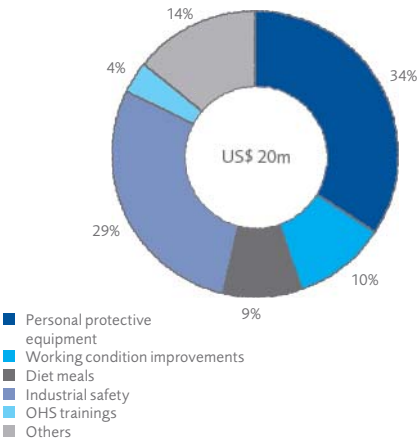
* Data for NLMK Russia

Industrial accidents in 2012			
Indicator	2012	2011	Change
Number of accidents	80	76	+4
Number of accidents with fatalities	7	8	-1
LTIFR (lost time injury frequency rate)*	0.86	0.86	
Frequency rate of accidents*	1.52	1.43	+0.09

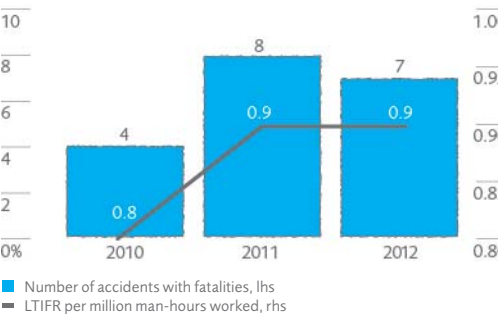
* Per million man-hours worked

- Strategic priorities for 2013:**
- Ensuring occupational health and safety policy meets state and internal requirements
 - Protection of the life and health of our employees during the course of their employment
 - Providing employees with healthy, safe working conditions

2012 OHS expense breakdown*



Number of accidents and LTIFR



Employees and human rights



The NLMK Group recognizes the importance of HR management as a key factor in its successful development.

NLMK's HR policy is based on the following principles:

- Partnership between employees and employer.
- Mutual responsibility for results.
- Provision of safe working conditions.
- Remuneration in accordance with results achieved.
- Equal opportunities for all employees.
- Maintenance of social benefits and guarantees.
- Implementation of additional corporate social programmes.

Working conditions at NLMK Indiana

"As someone who has been with the company for 13 years, I feel that the quality of our work environment and the opportunities for professional development are the key aspects to my employment with NLMK. For me it has been, among other things, the opportunity for advancement where work ethic, attendance and attitude are a key part of the evaluation process and seniority is only one factor. Another key point is that the leadership's open door policy makes it easy to communicate.

NLMK has done a great job with improvements that make our employees more comfortable, productive and safe. I'm really looking forward to seeing what the future holds for us at NLMK."

Pam Wagner

Roughing Mill Operator, NLMK Indiana



While strictly observing these principles, the Company is systematically implementing programmes designed to motivate staff to achieve high levels of productivity, encouraging this by increasing wages, providing further training, offering career development opportunities for top performers, attracting talented young workers to the Company and retaining experienced, qualified professionals.

Performance in 2012

In 2012, the Group continued to implement headcount optimization programmes in order to bring the structure of its companies in line with international standards. The average headcount of the Group in 2012 was 62,500.

At the parent company, the headcount in 2012 increased slightly compared with 2011 due to the recruitment of employees for new facilities (the Blast Furnace # 7 complex), bringing the total to 30,000.

In 2012, NLMK continued to improve its remuneration system in order to encourage highly skilled professionals, to attract young people and to motivate employees to increase productivity and produce quality products. The average employee salary in 2012 at NLMK's Russian sites increased to RUB 35,500, which is equivalent to US\$ 1,142. The Company's main HR priority is to create the conditions that will promote high levels of productivity and the manufacture of high value added products.

Employees and human rights Performance in 2012

- More than 62,500 people work for the Company around the world
- 47,000 employees have received professional training (+10% y-o-y)*
- Productivity is 239 tonnes of steel per employee (KPI) (+20% y-o-y)
- The average salary at the Russian facilities is RUB 35,500 (+12%)*
- About US\$ 3.5 million was earmarked for financing voluntary medical insurance for employees*
- About US\$ 5 million was earmarked for financing private pensions for employees*

Key projects in 2012

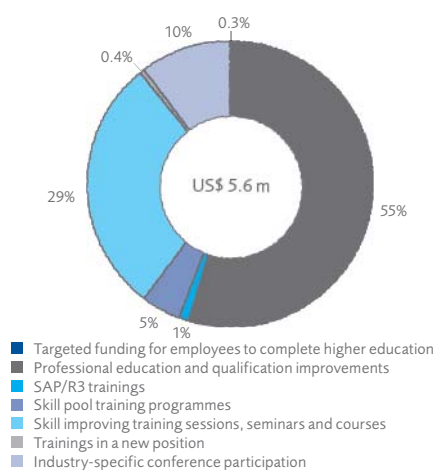
- Headcount optimization in accordance with international best practice
- Improvement of the employee motivation scheme
- Living conditions for 169 employees at Novolipetsk were improved as part of the "Housing for Young Steelmakers" programme

2013 goals

- Increase in productivity
- Increase in employee qualifications

* Data for NLMK Russia

2012 staff training and development funds*



Average headcount ('000)



* headcount for foreign assets presented starting from their consolidation

"Young Leader" competition

The annual "Young Leader" corporate competition has once again been held at the NLMK Group enterprises – Novolipetsk, Altai-Koks and VIZ-Steel – as part of the Group's youth policy. The aim of the competition is to uncover the leadership and creative skills of employees under the age of 35 and, as a result, to create an ambitious talent pool within the Group.

In 2012, approximately 800 of the Group's employees competed in the Young Leader contest and 141 of them were entered into the database of promising employees.

The "Leaders 2020" programme holds a special place in the Group's staff training system. It aims to establish a team of young leaders who will be capable of taking on senior management positions in the near future. The programme offers more than 800 hours of engaging classes with world-class instructors and well-known representatives from Russian and international businesses. In 2012, 27 NLMK Group employees participated in this programme.



The Company sees investment in professional training as a prerequisite for securing its long-term competitiveness and dynamic growth, raising the value of human capital and, ultimately, increasing Group capitalization. High-quality professional training not only creates the necessary skill levels to solve production problems but it also promotes increased employee commitment to the Company, creates a favourable social and psychological climate among the workforce and has a direct impact on the development of the corporate culture.

The main aspects of the professional training system include:

- An acclimatization programme and initial professional training.
- Training workers in second (related) professions.
- Improving the qualifications of Group employees in all areas of professional activity.
- Educating the talent pool.
- Professional development of senior management.
- Training freelance teachers and industrial instructors.
- Mentor training.

In 2012, around 47,000 employees underwent professional training at the Group's companies.

NLMK is also implementing a number of programmes to improve the lives of its employees through mandatory and voluntary medical insurance, participation in non-state pension insurance and through improvements in employee living conditions.

Mentoring as an important staff training and development tool

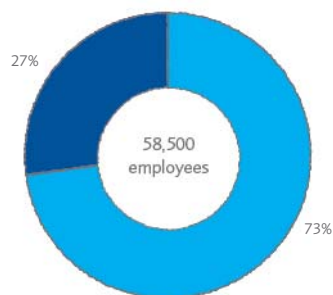
The effective training of young professionals at NLMK is facilitated by a proven mentoring system. Mentoring is not only an important part of helping young employees adapt to working life; it is also the most efficient way for new employees to gain the necessary knowledge, abilities, and professional skills. Currently, NLMK has over 3,000 mentors. These are highly qualified workers who have lots of experience and a solid knowledge of advanced technologies. Every year, they train around 1,000 newly recruited young co-workers. According to Roman Velikansky, Head of Professional Development at NLMK, "Mentoring is an important staff training and development tool that improves productivity. It helps employees to adapt quickly to their new job and to start working as efficiently as possible."

Engineer of the Year 2012 at NLMK

A competition for NLMK engineers has been held annually since 2004 as part of the Group's vocational training programme. It provides engineering professionals with opportunities to realize their ideas in actual production. A total of 431 employees have taken part in the competition, with nine of them recognized as winners at the national level.

The competition covers "Professional Engineers" and "Engineering for Young People", and includes the following categories: Steelmaking, Energy and Resource-Saving Technologies, Machine Building, Information Technology, and Ecology and Environmental Monitoring. An expert panel comprising senior managers and chief engineers from the Group evaluates the projects in terms of complexity, relevance, originality, the likelihood of their implementation in production and the results of implementation.

2012 gender diversity*



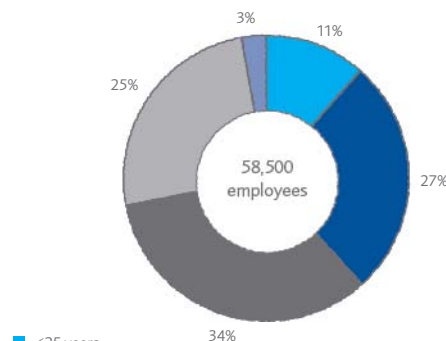
■ Male
■ Female

* data for NLMK Russia

Strategic priorities for 2013:

- Improving material and moral incentives for employees
- Developing HR procedures at subsidiaries to bring them up to the same corporate standard
- Continuing the practice of collective bargaining in the Group's companies
- Ensuring compliance with collective agreements

2012 age diversity*



■ <25 years
■ 26-35 years
■ 36-49 years
■ 50-59 years
■ 60 years and older

* data for NLMK Russia

Community and people



The Group understands that the social and economic stability in the regions where it operates depends on the long-term stability of the business. Therefore, the Group considers it strategically advantageous to follow a policy of corporate responsibility in local communities.

Charitable programmes are being implemented throughout the NLMK Group in order to promote the development of physical exercise and sport, science, culture, art and health. Support is also provided to low-income pensioners and the disabled, to children's art clubs, studios, libraries, museums and to art galleries. Funds are also allocated for the protection and proper maintenance of cultural and architectural monuments.

By these means, the Group works to maintain its status as a socially responsible employer.



More detailed information on NLMK Group's corporate responsibility can be found in our social reports that we have been publishing since 2006: <http://nlmk.com/sustainability/csr-reports>

Russia Day in Chicago

For the second successive year, NLMK USA was a sponsor of Chicago's annual Russia Day, timed to coincide with Russian Independence Day. This event, organized by Chicago Sister Cities International, attracted more than 250 guests – community representatives, the press, business people, and political leaders, including Sergey Kislyak, Russia's Ambassador to the United States. This honoured guest talked about the importance of strengthening relations between the two countries and of developing economic, cultural and spiritual connections between Moscow and Chicago.

Alexander Tseitline, Vice President of NLMK USA, noted that the Group's American division is an excellent example of mutually beneficial cooperation between Russia and the US, specifically emphasizing the importance of these kinds of events in reinforcing the ties between the two nations.



Performance in 2012

Our economic contribution

NLMK is a socially responsible business. The Group's enterprises are major employers and taxpayers. The Group's tax payments contribute to the development of other sectors of industry, agriculture, construction, and social development. The Company makes a significant contribution to local employment by providing jobs with competitive wages.

We are constantly improving the effectiveness of our social programmes which are designed to support education, health, culture, and sport and we continue to work to create a favourable environment for communities in the regions in which we operate.

Community and people

Performance in 2012*

- US\$ 68 million invested in areas of social need and in the development of the regions in which we operate
- US\$ 1.1 billion in tax paid to various government entities (-16% y-o-y)
- More than US\$ 12 million granted to charities (+28% y-o-y)
- US\$ 5.6 million allotted to health programmes

Key projects in 2012

- The Veterans' Health Project enabled thousands of pensioners to receive free special medical examinations
- In 2012, the Charity Fund provided financial support to 38 community initiatives. Over 37,000 people received support from the Fund.
- Over 450,000 tonnes of crushed rock was sent for the filling of country roads in the Lipetsk and Tambov regions
- 6,500 m of profiled sheeting went towards hurricane damage control in the Lipetsk region

2013 goals

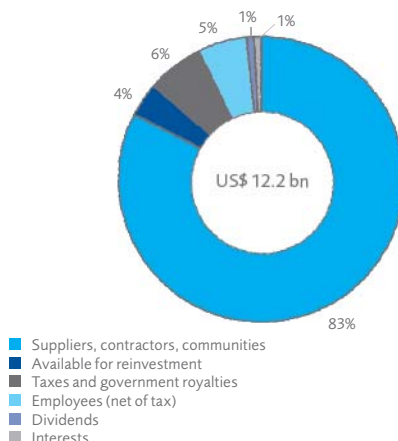
- Continued implementation of the country road improvement programme
- Fulfilment of planned charitable projects

* Data for NLMK Russia

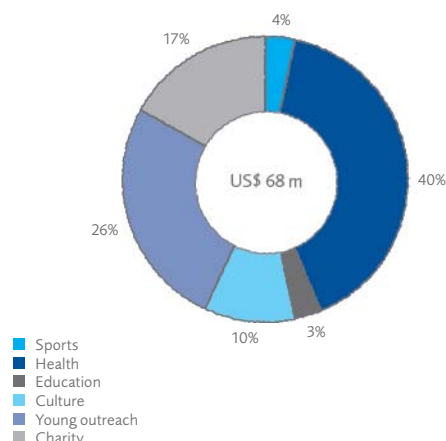
Social advocacy

In cooperation with local administrations, the Group carries out activities to improve the management of housing complexes and to increase the efficiency and transparency of social expenditure in the towns and cities where it operates.

2012 direct economic contribution



2012 social and community investment breakdown*



* data for NLMK Russia

Career guidance for students at Novolipetsk

As part of its work to provide careers guidance for schoolchildren, the company supports partnerships with 71 educational institutions in Lipetsk and the Lipetsk Region. During the 2011–2012 academic year, more than 8,000 schoolchildren from Lipetsk took part in events organized by NLMK. These events included "Start Science", an annual scientific conference for older pupils, "The Young Steelworker's School", and others. The best students were awarded certificates, letters of thanks, prizes, and places at specialized NLMK schools.

This new joint initiative by NLMK and the city's Department of Education has opened the doors for schoolchildren to take special classes in mathematics and the physical sciences provided by NLMK.

NLMK's holistic approach to careers education for schoolchildren has already proved its worth. Despite the weakening prestige of the engineering profession, there is no shortage of committed students at Lipetsk State Technical University, or of skilled young specialists at NLMK.



The Group's experts are actively involved in legislative activities in the regions where we operate. As deputies of municipal and regional assemblies, they have a good understanding of the most pressing problems within the local community. Therefore, during the development of social programmes, they can take into account the needs of various social groups and the strategic priorities of the local area. NLMK employees also work in the Civic Chamber, the regional offices of the Russian Union of Industrialists and Entrepreneurs and other public organizations.

Sports, health, education and culture

The Group provides assistance to children's and youth sports schools and groups and to sports clubs and athletes. Funds are allocated for the maintenance of sports facilities and buildings (stadiums, sports complexes, sports halls) and for the purchase of sports equipment.

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

The Group pays special attention to improving professional education facilities. NLMK provides ongoing support for basic educational institutions in organizing the education process, and in creating the conditions needed for students to receive a quality education. It also takes part in cultural, sporting and special events at professional training institutions.

Novolipetsk founded the Novolipetsk Medical Centre, a non-profit organisation established to provide medical care and rehabilitation for both plant workers and local residents.

Young outreach

Winning a reputation as the most attractive employer in the region is essential for the Group if it is to continue to attract creative and technically competent personnel. By helping the younger generation to receive a modern education, NLMK is creating its own pool of promising talent.

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

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

Charity

NLMK provides financial assistance to socially vulnerable individuals. The Group runs charitable programmes for pensioners and veterans of the Great Patriotic War – most of whom worked at the Group's plants – providing monthly payments, payment for drugs and medical care as well as for time spent in sanatoriums. Assistance is provided to pupils and former pupils of orphanages and boarding schools and to those living in rural communities. More than RUB 390 million (US\$ 12.5 million) was directed towards these charitable causes in 2012.

Supporting local artistic initiatives

Vtorchermet NLMK Ural traditionally takes part in 'Scrap', an international park sculpture festival, which is supported by Russia's National Centre for Contemporary Art. Park sculptures created from waste metal by Russian and foreign artists are exhibited in the Mayakovsky Central Park of Culture and Recreation in Yekaterinburg. Every year, Vtorchermet NLMK Ural offers artists more than 10 tonnes of scrap, an area to work, and specialist welders. When the festival is over, some of the sculptures are placed at Vtorchermet NLMK Ural's production sites.

Enabling potentials

Every year, Altai-Koks allocates funds to help children with cerebral palsy and other disabilities. The company also supports a remedial health facility at the children's creative centre in Zarinsk. There are three remedial groups, bringing together more than 100 children of different ages. At the centre, they acquire knowledge and skills through play and creativity: painting, sculpting, and staging performances. The facility relies solely on charitable funds and Altai-Koks is its major sponsor. Thanks to the plant, the facility is constantly updated with the necessary furniture, fitness equipment and educational games. Surrounded by caring teachers, the children are able to live a full life, discovering new talents and overcoming their disabilities.

Strategic priorities for 2013:

- Promoting sustainable development in our regions of operation
- Maintaining a stable social and economic environment in local communities
- Developing partnerships with regional governments and local authorities
- Creating comfortable living conditions for the Company's employees and local residents
- Building a reputation as a good employer and acting in accordance with that image

Environment



"Environmental protection is a cornerstone of the NLMK Group's strategy. Annual audits have consistently confirmed the effectiveness of its environmental management system. In 2012 we implemented a number of conservation measures at various companies within the group, with a total investment in environmental protection amounting to RUB 2.4 billion. As a result, despite substantially increasing production, we have made remarkable progress in the field of environmental protection: specifically, emissions and water consumption have been cut by 19% and 6% respectively. In 2013, we will continue to implement these and further environmental initiatives in order to reduce any negative impact on the environment in regions where the group operates."

Yury Larin

Vice President, Technology Development and Operational Efficiency

Mr Larin served as Deputy Director for Technology at NLMK's Central Laboratory between 1996 and 1999. He served as Director of the NLMK Engineering Centre from 1999 to 2006. From 2006 to 2007 Mr Larin served as Vice President, Technology and Environment and from 2007 to 2013 he served as Vice President, Development and Environment.

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

The Group's environmental policy is NLMK's consolidated position on common strategic objectives, guiding principles, and objectives in the field of environmental protection. This long-term declaration defines the activities of the Group with regard to ensuring the environmental safety of production and the regions where the Company operates.

The strategy makes provision for the Group's environmentally oriented development, guaranteeing the reduction in negative impacts on the environment alongside a significant increase in the production of commercial products.



With regard to environmental protection, NLMK adheres strictly to its Environmental Policy. See http://nlmk.com/docs/treeru/ecology_policy.pdf

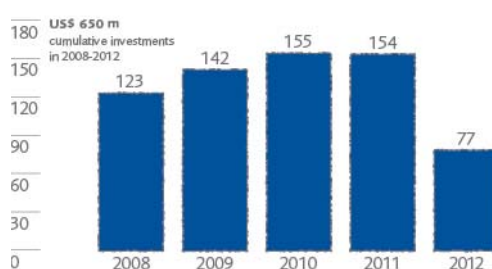
The corporate policy principles that have been developed and consistently implemented rule out possible risks that might limit the Group's development on the grounds of environmental concerns.

Performance in 2012

Minimization of the Group's negative impact on the environment is the result of a series of environmentally focused investment programmes, as well as the execution of planned environmental and technological activities outside the investment process.

The positive trends in annual investment growth in 2008–2012 were due to the implementation of a number of projects, including environmental protection projects, or projects with concomitant effects on the environment. These were done as part of Stage II of the Technical Upgrade Programme, most of which was completed in 2012. The Group's total investments in environmental projects for the period 2008–2012 were US\$ 650 million.

Environmental investments (US\$ m)*



* data for NLMK Russia

Environment

Performance in 2012*

- US\$ 77 million invested in environmental protection
- Atmospheric emissions down to 22.6 kg/t (-19% y-o-y)
- 15% y-o-y decrease in pollutant discharge into watercourses
- Water consumption reduced to 1.9 m³/t (-6% y-o-y)
- The amount of waste recycled increased to 9 mt (+23% y-o-y)
- Utilization of process off-gases increased to 90% (+4 p.p.)

Key projects in 2012

- VIZ-Steel achieved ISO 14001:2007 environmental management system certification
- Reconstruction of the gas cleaning systems for EAF operations in NLMK Russia Long
- Reconstruction of the biochemical wastewater treatment system for coke-chemical operations
- Construction of a drainage pumping station at Stoilensky
- Sponsorship of the Russian part of the "Let's Do It! World Cleanup 2012" global environmental campaign

2013 goals

- Initiation of projects contained in Stage 3 of the Environmental Protection Programme for 2013–2016

* Data for NLMK Russia

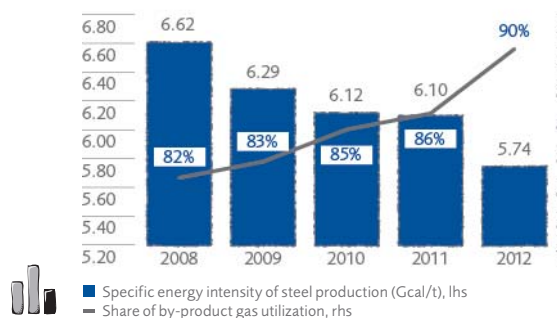
Air emissions*



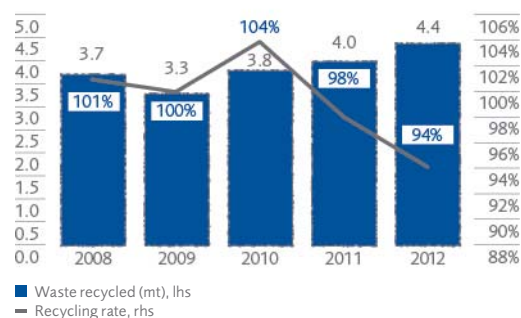
■ Gross air emissions ('000 t), lhs
— Specific air emissions (kg/t), rhs

* data for NLMK Russia

Lower specific energy intensity coupled with higher use of by-product gas (Gcal/t)



Waste recycled (mt)*



* data for Novolipetsk

During 2012, despite the current market conditions and the Company's ongoing expansion programme, we continued to implement large-scale environmental projects. The increased production of finished products across the whole Group in 2012 did not lead to a deterioration in environmental performance. On the contrary, NLMK's cumulative data shows a tendency for a reduction of the negative impact on the environment of the regions in which it operates that outstrips growth.

Minimizing air emissions

There was a 19% reduction in air emissions at the Group's key sites compared to the previous year, while steel production at the Russian facilities increased by 25% y-o-y. This impressive trend was made possible by a number of environmental projects designed specifically to reduce emissions.

Reducing water body impact

Water consumption at the Group's enterprises varies depending on the nature, scope, and structure of production. With the completion of the water supply system upgrade project, the balance of water consumption in the Group has changed significantly. Water consumption at the parent company increased by 4.9% in 2012 (alongside a 24.8% increase in steel production); water consumption at Altai-Koks rose by 12.8% in line with the upturn in coke production, while water consumption at VIZ-Steel decreased by 6.9% in 2012 as production fell by 3.9%.

One advantage that some sites – Novolipetsk, Stoilensky, Altai-Koks, and VIZ-Steel – have is a zero-discharge wastewater system. In 2012, the Group's impact on the water table was 288 tonnes.

Waste management

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

Production growth in metals and mining is associated with an increase in waste generation but, with the organization of proper recycling, the increase in waste output does not create a risk to the environment. The most efficient treatment of waste in 2012 was demonstrated by Russia NLMK Long facilities (94.5% recycling rate), Novolipetsk (94.2% recycling rate), and by Dolomit (100% recycling rate).

Responsible use of resources

A responsible approach to resource consumption is one of the focal areas of the Company's environmental policy. One of the priorities in this area is improving energy efficiency, allowing the Group to mitigate the negative impacts of industrial production on the environment.

As part of the Order on Energy Conservation, in 2012 NLMK implemented 92 measures with regard to the efficient use of energy resources. In 2012, the Energy Management System at Novolipetsk was certified as compliant with the new international standard ISO 50001:2011 'Energy Management Systems – Requirements and Guidance for Use'. Furthermore Novolipetsk became the first steel company in Russia to have its compliance with the international standard confirmed by the international auditors TÜV SÜD (Germany).

Strategic priorities for 2013:

Minimizing air emissions

- Further reduction in air emissions
- Compliance with maximum allowable dust levels at the boundary of the sanitary protection zone
- Fulfilment of legal requirements for the sanitary protection zone

Reducing water body impact

- Fulfilment of legal requirements for compliance with the water protection zone
- Reduction of the level of water body impact

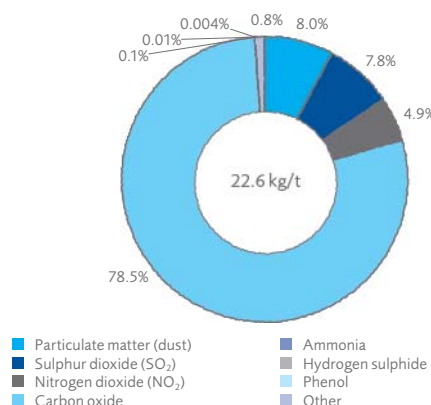
Waste management

- Revegetation of waste accumulation and disposal sites
- A decrease in waste generation and accumulation

Responsible use of resources

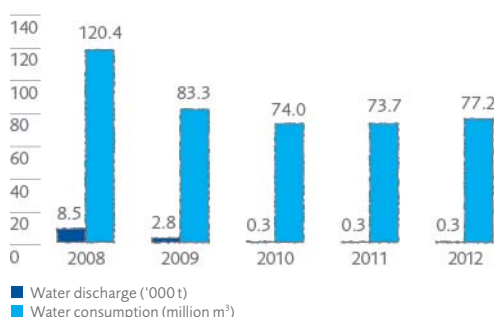
- A further increase in energy efficiency

2012 air emission breakdown*



* data for NLMK Russia

Water body impact ('000 t/million m³)*



* data for NLMK Russia

Section IV:
Governance

In this section:

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We are Professionals

- In recent decades, the Group has focused on improving the quality of its system of corporate governance. This gives us a significant competitive advantage and ensures guaranteed investment protection for shareholders and investors.
- NLMK is led by a team of professionals who have extensive experience in managing the Group in times of difficult market conditions and who are capable of strengthening its position within the industry. The Group's effective management approach ensures the stability of its business model and supports long-term economic growth.
- We consider the professionalism of our employees to be essential to improving the Group's performance. Consequently, the development of human capital is the main driver behind our sustainable growth and thus NLMK continues to invest in training and professional development for its employees.



For more information on our Board of Directors



For more information on our Human Resources, Remuneration and Social Policies Committee

Over
25
years

of experience in the industry on average
for members of the Board of Directors

3
independent directors
on the Board of Directors

OECD
Compliance with OECD principles
of corporate governance



An effective Board responsible for the success of the Group

An effective system of corporate governance requires constant improvement in order to provide the conditions required to create long-term value for the Company.



I have been Chairman of the Board of Directors of our company for more than 15 years. During this time, the steel industry has witnessed dizzying growth, followed by decline, and then a period of volatility and sporadic growth. For many companies, the 'good times' allow them to sweep their errors in strategic planning and execution under a carpet of impressive figures. Having achieved excellent results during the period of growth, we, on the other hand, were able to maintain our leading position, even in difficult market conditions.

Ensuring effective corporate governance

In times like these, differences in approach to company management – whether the leadership is focused on short-term results or whether its efforts are directed towards creating value in the long term – become highly apparent. This is where the role of the Board of Directors becomes particularly important. Do the directors understand the sector and the key forces that are driving it? Are important decisions preceded by a thorough analysis of the consequences for the Group and for shareholder value? Is the board working together with management as a single team to achieve the shared goal of increasing the long-term value of the Company?



For more information on our approach on corporate governance

Compliance with corporate governance codes

We strive to construct a system of corporate governance that complies with the high standards required of public companies. The Group's system of corporate governance has been developed to comply with the fundamental principles recommended by the Organization for Economic Cooperation and Development (Principles of Corporate Governance, 1999) and the Corporate Behaviour Code of the Russian Federal Financial Markets Service.



The Code of Corporate Governance of NLMK is available on our corporate website: <http://nlmk.com/docs/tree/corporate-governance-code.pdf>

Board's diversity

In order to adequately assess what is good for the Company and its shareholders in the long term, directors must not only have a good understanding of the sector but must also be highly capable of adapting to market conditions and have experience of working in other sectors. Our Board contains people of different generations and different nationalities. They have many years of legal, financial and management experience. I believe that having independent directors is one of the cornerstones of our Group's success. It allows us to scrutinize strategy from various viewpoints, while striking a balance between maintaining the Group's current stability and securing its competitiveness and effectiveness in the long term.



For more information on the composition of our Board of Directors

Achievements in 2012 and priorities for 2013

An effective system of corporate governance requires constant improvement in order to provide the conditions required to create long-term value for the Company. I feel that the effectiveness of corporate governance depends heavily on the active involvement of every director in the work of the Company, which means not only attending board meetings but also holding meetings with the heads of the various departments and participating in site visits.

From 2012 to early 2013, a number of changes, which I view as positive, were made in the area of corporate governance. Changes in the composition and structure of the Management Board included the introduction of new management positions for logistics and procurement, which are fundamental to the Company's operations. A new independent director, Benedict Sciortino joined the Board. Dr Sciortino has many years of experience in the industry and extensive knowledge in the field of law, which will undoubtedly prove useful to the Company in the future. Oleg Bagrin replaced Alexey Lapshin as Group President. We hope that Mr Bagrin's appointment to senior management will enable the Company to expedite key governance decisions and improve the system for monitoring the execution of strategic Board decisions.



For more information on achievements and priorities of our Board of Directors

Our priorities remain the observance of Company shareholders' rights and the defence of their interests, strict observance of information transparency principles, and improving corporate governance effectiveness.

Vladimir Lisin

Chairman of the Board of Directors

"I feel that the effectiveness of corporate governance depends heavily on the active involvement of every director in the work of the Company, which means not only attending board meetings but also holding meetings with the heads of the various departments and participating in site visits."

Achievements in 2012

- New appointments and structure of the Management Board
- Introduction of new management positions for logistics and procurement
- Benedict Sciortino joining the Board as a new independent director
- Oleg Bagrin appointed as Group President

Priorities for 2013

- Defending the interests of shareholders
- Observing the principles of information transparency
- Increasing corporate governance effectiveness



"The Company has done a colossal amount of work in implementing the growth strategy adopted around 10 years ago. NLMK has been transformed from a Russian company into a world leader. This is the direct result of the efforts of both management and employees. As the Company's President, I have set myself the task of not only maintaining but strengthening the Group's leading position in Russia and worldwide."

Oleg Bagrin

New President and Chairman of the Management Board



Vladimir Lisin
(1956)

Chairman of the Board of Directors

Membership in Board's Committees

Strategic Planning Committee (Chairman)
Human Resources, Remuneration and Social Policies Committee (Chairman)

Appointment

Chairman of the Board since 1998, Board member since 1996

Background and experience

Education: Graduated from the Siberian Metallurgical Institute (Novokuznetsk). In 1990, he graduated from the Higher School of Commerce with the All-Russian Foreign Trade Academy decorated with the order of International Friendship (Moscow) and then in 1992 he graduated from the Academy of National Economy under the Government of the Russian Federation (Moscow), majored in Economics and Management.

Ph.D., Tech.; Ph.D., Ec.; Professor, Department of Market and Economy Issues, Academy of National Economy under the Government of the Russian Federation. Winner, USSR Council of Ministers prize for Science and Technology. Honorary Metallurgist of the RF. Knight of the Order of Honour.

Professional experience: Started his career in 1975 as an electrical fitter. He worked at Tulachermet, rising through the ranks from assistant steelmaker to deputy shop manager.

From 1986, he worked in Kazakhstan, first as Deputy Chief Engineer, and later as Deputy CEO of the Karaganda Steel Plant. Member of Boards of Directors of several leading Russian steel companies since 1993.



Vladimir Skorokhodov
(1951)

Deputy Chairman of the Board

Strategic Planning Committee
Human Resources, Remuneration and Social Policies Committee

Board member since 1996

Education: Graduated from the Moscow Institute of Steel and Alloys in 1973. In 1976 he completed post-graduate studies and obtained a Ph.D.

Ph.D., Tech., professor. Holder of the National Prize for Science and Technology. Author of 117 academic publications, six books and 158 patent descriptions.

Professional experience: From 1977 to 1991, he worked as a researcher, head of laboratory and Deputy Director of the Bardin Central Institute of Ferrous Metallurgy (Moscow). Between 1992 and 1994, he worked as Chief Expert in the Ministry of Industry and the Ministry of Economy of the Russian Federation. He has been with Rumelco since 1999.

Does not hold offices in executive bodies in other organizations

4. Expert Council under the Russian Government, Member of the Expert Council
5. International Olympic Committee, Member of the Commission for Culture and Olympic Education
6. Presidential Council for the Development of Physical Culture and Sport, Council Member
7. All-Russian Union of Public Associations "Russian Olympic Committee", Vice-President, Member of the Executive Committee
8. "Social Development Institute" Social Fund, Chairman of the Supervisory Board



Oleg Bagrin
(1974)

Member of the Board, President (Chairman of the Management Board)

Strategic Planning Committee
Human Resources, Remuneration and Social Policies Committee

Board member since 2004, President (Chairman of the Management Board) since 2012

Education: Holds a graduate degree in Operations Research and a post-graduate degree in Economics from the State Management University (Moscow, 2001) and a degree in Business Administration from the University of Cambridge, UK.

Professional experience: NLMK Group's Executive Vice President in 2012. Director of Libra Capital, a Moscow-based investment management company until October 2012.

1. NLMK Pennsylvania, Member of the Board of Directors, Member of Collective Executive Body
2. Sharon Coating, Member of the Board of Directors, Member of Collective Executive Body, Manager
3. NLMK Indiana, Member of the Board of Directors, Chairman of Collective Executive Body, General Director
4. NLMK International B.V., Member of the Board of Managing Directors
5. Libra Capital investment company, Member of the Board of Directors
6. Libra Capital investment management company, Member of the Board of Directors
7. Freight One, Member of the Board of Directors



Nikolai Gagarin
(1950)

Member of the Board

Audit Committee

Board member since 2001

Education: Graduated from Moscow State University, majored in Law.

Professional experience: In 2003 – being Managing Partner – he was appointed Chairman of the Board at Reznik, Gagarin, Abushakhmin and Partners Law Offices. Managing Partner at Reznik, Gagarin and Partners Law Offices, Moscow, since 2009.

Honoured Lawyer of Russia.

1. Fletcher Group Holdings Limited, Director, Member of the Board of Directors
2. Reznik, Gagarin and Partners Law Offices, Chairman of the Board, Managing Partner
3. Severneftegaz, Member of the Board of Directors
4. Chernomorneftegaz, Chairman of the Board of Directors

External appointments

- Include:
1. Non-Commercial Partnership "Consortium Russian Steel", President, Member of the Supervisory Board
 2. World Steel Association, Member of the Board of Directors (Director)
 3. All Russia Public Organization "Russian Union of Industrialists and Entrepreneurs" (RSPP), Member of the Federal Council Presidium, Member of the Management Board, Chairman of Budgeting and Tax Committee, Chairman of Metallurgical and Mining Complex Committee and a number of other appointments



Karen Sarkisov
(1963)

Member of the Board

Strategic Planning Committee
Audit Committee

Board member since 2010

Education:

Graduated from the Tashkent State University in 1986, majored in Oriental Studies.

Professional experience:

From the early 1990's to 2008, he held various executive positions at a number of international trading entities. From 2006 to 2007, he served as the Chairman of the Board of Directors of VIZ-Steel. Aide to the NLMK Chairman of the Board of Directors on External Economic Relations beginning in 2009.

NLMK International B.V., Member of the Board of Managing Directors



Karl Doering
(1937)

Member of the Board

Strategic Planning Committee
Audit Committee

Board member since 2006

Education:

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

Professional experience:

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

Until 2002, he represented the French steelmaker Usinor in Central and Eastern Europe.

Project Consulting, Managing Director



Helmut Wieser
(1953)

Member of the Board

Strategic Planning Committee

Board member since 2011

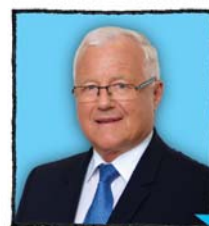
Education:

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

Until November 2011, he served as Executive Vice President of Alcoa, overseeing Alcoa's businesses in the Asia Pacific region and as a member of the Alcoa Executive Council. He was also Group President responsible for Alcoa's global mill products and rigid packaging businesses.

Prior to that, he worked for Austria Metal Group (AMAG) for 10 years in various capacities, including as an executive member of the board and chief operating officer. Earlier, he held several senior management positions with Voestalpine in Austria and Venezuela, including President of Voestalpine Venezuela.

Rutgers Germany GmbH, Member of the Board of Directors



Franz Struzi
(1942)

Member of the Board

Strategic Planning Committee
Audit Committee

Board member since 2011

Education:

Graduated from the University of Economics, Vienna, in 1964.

Professional experience:

In 1967 joined the Alpine Steelgroup, later renamed Voestalpine, Austria, serving the Company for over four decades. In 1981, he was appointed Chief Financial Officer before becoming Chief Executive Officer of Voestalpine Long Products Group and a member of the Executive Board in 1991. From 1995 until 2001 he served as Vice Chief Executive Officer of the Group. In 2001, he was appointed as Voestalpine Group Chief Executive Officer and Chairman. He held the position until 2004, when he moved to become Chief Executive Officer of Voestalpine, Brazil - Villares Metals, remaining there until 2010.

RHI AG, General Director



Benedict Sciortino
(1950)

Member of the Board

Strategic Planning Committee

Audit Committee (Chairman)

Board member since May 2012

Education:

Holds JD and LLM degrees from New England School of Law (Boston) and New York University Law School, New York and a BA from Queens College, New York.

Professional experience:

From 1977 to 1995, he worked as an attorney-at-law and a partner with Baker & McKenzie, New York. He joined Duferco in 1995. Now he serves as a Managing Director of Duferco S.A. responsible for the Duferco Group North American and South African businesses, as well as trading operations, finance and legal matters, mergers and acquisitions.

- Include:
1. Duferco S.A., Managing Director
 2. Duferdofin – Nucor S.r.l., Member of the Board of Directors
 3. Vanchem Vanadium Products (PTY) Ltd, Member of the Board of Directors
 4. South African Japan Vanadium Corporation (Pty) Ltd ("SAJV"), Chairman of the Board of Directors
 5. Acofer Prodotti Siderurgici Srl, Member of the Board of Directors
 6. NLMK Pennsylvania, Member of the Board of Directors
 7. Sharon Coating, Member of the Board of Directors
 8. NLMK Indiana, Member of the Board of Directors



Independent Director



Oleg Bagrin
(1974)

President (Chairman of the Management Board), Member of the Board of Directors

Appointment

Board member since 2004, President (Chairman of the Management Board) since October 2012

Background and experience

Education:
He holds a graduate degree in Operations Research and a post-graduate degree in Economics from State Management University (Moscow, 2001) and a degree in Business Administration from the University of Cambridge, UK.

Professional experience:
NLMK Group's Executive Vice President in 2012. Director of Libra Capital, a Moscow-based investment management company until October 2012.



Dmitry Baranov
(1968)

Vice President, Sales

Board member since 2006

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

Professional experience:
From 1999 to 2000, he served as sales manager for a group of trading companies. Between 2000 and 2004 worked as an expert and later head of the Domestic Market Analysis Division at Rumelco Ltd.

Served as Sales Director at Trading House NLMK Ltd. from 2004 to 2006.



Alexander Burayev
(1963)

Director for Long Products and Metalware

Board member since November 2012

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

Professional experience:
He has held various offices at NLMK since 1988, starting as a heat-treatment engineer. From 2002 to 2007, he worked as Head of the Cold Rolled and Coated Flats Shop at Novolipetsk.

From 2007 to 2010 he was Head of Production, Operations Department at NLMK.

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



Brijesh Garg
(1964)

Vice President, Procurement

Board member since November 2012

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

Professional experience:
He has 14 years of experience in supply chain management and business process re-engineering in the steel industry and 13 years of experience in industrial engineering.

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

Vice President for Procurement at NLMK since April 2012.



Alexander Gorshkov
(1961)

Vice President, Iron Ore Division

Board member since 2007

Education:
Graduated from the Novosibirsk Electro-Technical Institute.

Professional experience:
From 1999 to December of 2003, he served as General Director of Dolomit and then from 2003 to 2004, he was Deputy Director of the Lipetsk branch of Rumelco Ltd.

General Director of Stoilensky since 2004.

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Yuri Larin
(1952)

**Vice President,
Technology
Development &
Operational Efficiency**

Board member since 2006



**Alexander
Sapronov**
(1953)

Vice President, Logistics

Board member since
November 2012



**Alexander
Saprykin**
(1967)

**Vice President,
Strategic Raw Materials
Division**

Board member since 2006



Grigory Fedorishin
(1979)

Vice President, Finance

Board member since 2012



Sergey Filatov
(1959)

Managing Director

Board member since January
2013



Stanislav Tsyrlin
(1968)

**Vice President, HR &
Management System**

Board member since 2005

Education:

Graduated from the
Voronezh Polytechnic
Institute. Ph.D., Tech.

Professional experience:

From 1996 to 1999, he
worked as Deputy for
Technology, Director of
NLMK's Central Laboratory.
From 1999 to 2006 he was
Director of the NLMK
Engineering Centre and from
2006 to 2007, he served as
Vice President for
Technology and
Environment.

From 2007 to 2013 he was
NLMK Vice President for
Development &
Environment.

Education:

In 1980, he graduated from
the All-Union
Correspondence Law
Institute and in 1992 from the
Russian Management
Academy. In 2008 he
received an MBA in Logistics
and Supply Chain
Management from the State
University Higher School of
Economics.

Professional experience:

From 1995 to 2001, he was
President at JSC Russkiy Mir.
Then, from 2001 to 2005, he
served as Vice President and
Senior Vice President for
UKOS RM. From 2005 to
2007 he served as Vice
President at Rosneft and
from 2008 to 2009 he
worked as Deputy Director
General for Strategy and
Corporate Development at
Freight One (PGK). From
2009 to 2012 he was Director
General for Independent
Transportation Company
(NTK).

Vice President for Logistics at
NLMK since February 2012.

Member of FAS Russia
(Federal Antimonopoly
Service) Expert Council for
Railway Transport. Member
of the International
Management Academy since
2012

Education:

Graduated from the Moscow
State Mining University.

Professional experience:

He worked as chief specialist
for Metallurg from 1996 to
1997. From 1997 to 1998 he
was General Director of
VIZEL while from 1998 to
2001 he served as General
Director of RUDPROM. From
2002 until 2006 he headed
the Raw Materials Market
Analysis Department at
Rumelco.

From 2006 to 2007 served as
NLMK Vice President, Head
of Iron Ore Division. From
2007 to 2013 he was NLMK
Vice President, Head of Coal
Division.

Education:

Graduated from the
Academy of Finance under
the Government of the
Russian Federation
(Moscow). Holds an MBA
from INSEAD business
school (France & Singapore).
A member of an association
of Certified Financial
Analysts (CFA).

Professional experience:

From 2001 to 2009, he
worked for
PricewaterhouseCoopers
consulting company where
he held positions up to a
director of business
restructuring practice. From
2009 to 2011, he served as
an investment manager at
Libra Capital, a Moscow-
based investment
management company.

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

Education:

He graduated from the
Moscow Institute of Steel
and Alloys. He holds a Ph.D.
(Tech.), and is an Honorary
Metallurgist of Russia.

Professional experience:

From 2007 to 2009, he was
Project Manager at NTMK
Project Management
Department. From 2009 to
2012 he served as Chief
Engineer/Project Director at
NTMK. He has been with
NLMK since October 2012,
serving as Deputy Senior
Vice President - General
Director for Production and
Technology.

On January 25, 2013 Sergey
Filatov was appointed to the
position of NLMK's
Managing Director.

Education:

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

Professional experience:

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.
From 2003 to 2004 he
worked for Rumelco.

From 2004 to 2006 he
served as Director for
Strategy and Management
Systems at NLMK.



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25 Management Q&A



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27 Management Q&A

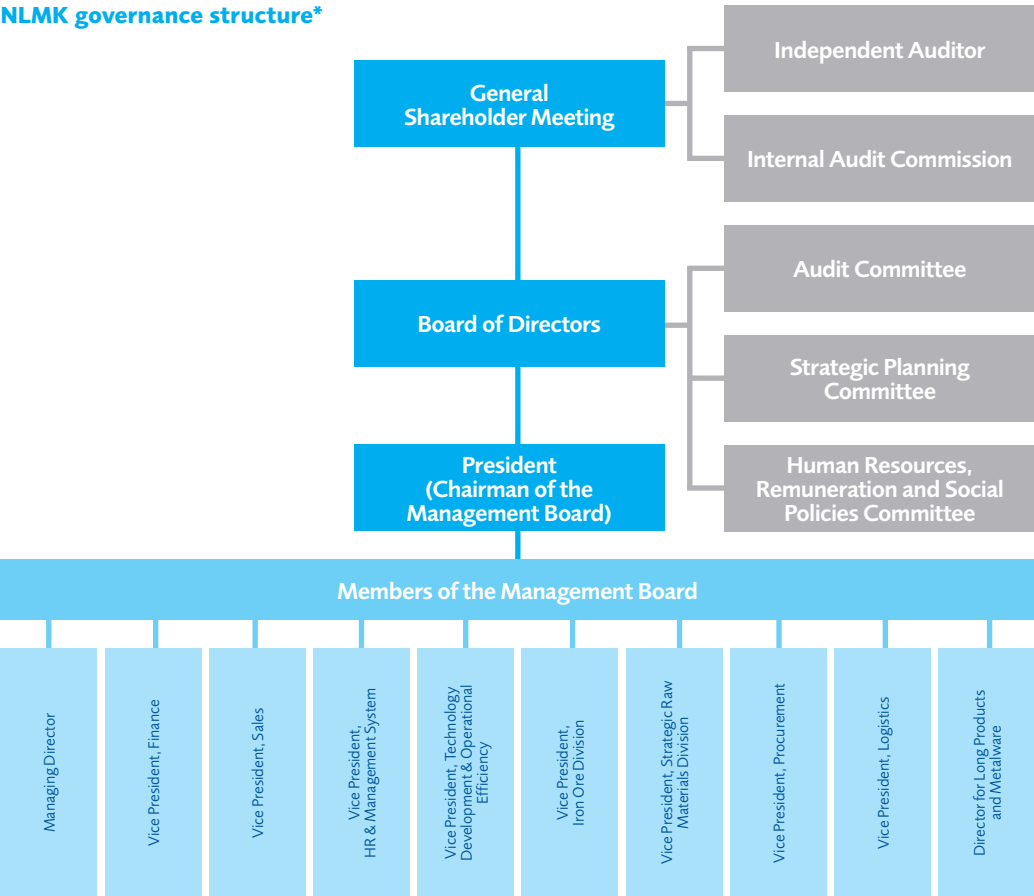


89 Corporate responsibility

Adhering to the best practice requirements in corporate governance

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

NLMK governance structure*



As a public company, NLMK is constantly improving its corporate governance standards in order to make management more efficient, ensure a sustainable business model and grow the Company's long-term valuation. The Group's corporate governance standards were developed in accordance with the core principles recommended by the OECD and they comply fully with the current legislation of Russia and of the countries where the Group's companies operate.

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

Our approach to corporate governance

Corporate governance principles

The key document which sets out all the core rules and principles of corporate governance at the Company is the Code of Corporate Governance of NLMK, which was adopted in 2006 and is based on the recommendations of the Organization for Economic Cooperation and Development (OECD), Russian legislation and on international best practice that NLMK has adopted in recent years.

The document is available on the Group's website in the Corporate Documents section: <http://nlmk.com/docs/tree/corporate-governance-code.pdf>

The following principles lie at the heart of NLMK's corporate governance system:

- The desire to ensure effective and transparent mechanisms in guaranteeing the rights and interests of shareholders.
- Equal treatment of all shareholders.
- Guaranteeing the rights of shareholders to participate in the management of the Group.
- Observing the rights of third parties.
- Commitment to a common corporate policy with respect to subsidiaries, affiliated companies and other legal entities in or of which NLMK is a participant, founder, or member.
- A policy of transparency and disclosure.
- A policy of adhering to business ethics.
- Ensuring compliance with applicable laws and international standards of corporate governance.

Corporate governance structure

The General Shareholder Meeting is the supreme governing body of NLMK. The Board of Directors exercises overall management of activities and determines long-term strategy. NLMK's executive officers, made up of the President (Chairman of the Management Board) and members of the Management Board, manage day-to-day activities.

NLMK named best company by Euromoney magazine

According to the results of the eighth annual ranking of Central and Eastern European companies compiled by Euromoney magazine, NLMK came first in the 'Most Convincing and Coherent Strategy' category in the Metals&Mining sector and second in the 'Best-Managed Companies' category.

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



For more information on our corporate governance please visit Corporate Governance section of the corporate website: <http://nlmk.com/investor-relations/governance>

Company's policy on related party transactions

This policy is aimed at minimizing the risks of improper use of Company assets by senior management. Related party transactions are approved by NLMK in accordance with applicable law (the Federal Law 'On Joint Stock Companies') and corporate documents (the NLMK Charter). NLMK has developed and implemented an efficient internal system for ensuring compliance with the requirements and a procedure for completing and approving related party transactions.

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

General Shareholder Meeting

The General Shareholder Meeting is the supreme governing body of NLMK. NLMK shareholders possess a set of rights that can be exercised by the shareholders themselves or through their representatives at the General Shareholder Meeting, where they have the right to cast votes on matters within their competence. The General Shareholder Meeting enables NLMK shareholders to actively participate in the life of the Company and to take part in key decisions; the meeting also affords them the opportunity to meet personally with senior management and the Board of Directors.

Meeting procedure

The basic procedures governing the General Shareholder Meetings are described in the relevant Regulation presented on the Company's corporate website.



The document is available on the Group's website: <http://nlmk.com/docs/tree/regulations-on-holding-general-meeting-of-shareholders.pdf>

There are both Annual and Extraordinary General Shareholder Meetings. The Annual General Shareholder Meeting may be held only in the form of a meeting, but Extraordinary General Shareholder Meetings may be held in either the form of a meeting or remotely, as determined by the initiator of the meeting. The following may act as initiators: the Board of Directors and requests submitted by the Internal Audit Commission or the Company Auditor, as well as by shareholders who own at least 10% of the voting shares.

At the Group's Annual General Shareholder Meetings, shareholders elect the Board of Directors, the President (Chairman of the Management Board), and the Internal Audit Commission; they also approve the Auditor and annual reports, distribute profits, and examine other issues that fall within the competence of the General Shareholder Meeting.

Decisions of the General Shareholder Meeting in 2012

The Annual General Shareholder Meeting for FY 2011 was held on 30 May 2012. The following agenda items were addressed during the meeting:

- Election of the Group's management and auditing bodies.
- Approval of the Company's auditor, ZAO PricewaterhouseCoopers Audit.
- Payment of remuneration to the members of NLMK's Board of Directors.
- Approval of the Group's 2011 Annual Report.
- Announcement of dividends for 2011.

Oleg Bagrin was elected as President (Chairman of the Management Board) at an Extraordinary General Meeting of NLMK held on 25 October 2012.

Shareholder relations and disclosures

NLMK adheres to the principle of allowing shareholders, potential investors and professional participants on the securities market to access as much reliable information on the Group as possible, as may prove useful to them when making investment and management decisions.

Regularity, efficiency, availability, reliability, completeness, balance, equality and security of information resources are the main principles of NLMK's Information Policy, which complies with the best international disclosure practices.



The complete text of the Group's Information Policy is available on the corporate website: http://nlmk.com/docs/tree/information-policy-of-nlmk_2011.pdf

The Group employs a Corporate Secretary in order to ensure that the rights and interests of shareholders are observed. The Corporate Secretary ensures that the Group and its officers observe the requirements of applicable law and the Group's corporate documents. In addition, the Corporate Secretary facilitates communications between corporate parties, including preparation and conduct of the GSM and the meetings of the Board of Directors; storage, disclosure, and provision of information about the Group; and consideration of the requests of shareholders.

The Group has also developed an investor and shareholder relations programme, led by the Director of External Relations. It is tasked with arranging meetings between the Group's senior management and investors. During these meetings, senior management reports on the Group's results and strategic growth areas, and answers questions from investors. The Investor Relations Department also maintains an ongoing dialogue with the investment community and it reports on the most significant issues to the Group's senior management.



More information on the Group's investor relations may be found on NLMK's corporate website: <http://nlmk.com/investor-relations/overview>

Supervisory authorities Internal Audit Commission

The Group has an internal auditing system that covers all its activities. Key functions include:

- Monitoring, assessment, and management of operational, financial and social risks.
- Monitoring compliance with applicable laws.
- Financial and currency control.
- Internal performance audits.

The Internal Audit Commission forms a part of this system. It is a permanent internal body that conducts regular audits of the Company's financial and economic activity in order to obtain reasonable assurance that the Group's activities do not violate the legislation of Russia and are conducted without infringing upon shareholders' rights. It also ensures that financial statements and reporting are free of material misstatements.

The Internal Audit Commission is an effective tool for the protection of the shareholders' investments and the Group's assets. The Internal Audit Commission acts in the interests of the shareholders and is elected by the General Shareholder Meeting for a period of one (1) year. The report of the Internal Audit Commission forms an integral part of the Group's RAS financial statements. The Internal Audit Commission acts on behalf of Group shareholders, and its activities are accountable to the General Shareholder Meeting.

The following officers, elected on 30 May 2012 at the Annual General Shareholder Meeting, are currently serving on NLMK's Internal Audit Commission:

- Ludmila Kladienko.
- Valery Kulikov.
- Sergey Nesmeyanov.
- Larisa Ovsyannikova.
- Galina Shipilova.

Activity in 2012

In 2012, the Internal Audit Commission held two meetings to examine the 2011 NLMK Financial and Operating Performance Audit Report and the report of the Commission was approved for 2011; the Commission's planned activities for 2012 were also discussed. The Commission reviewed the Group's financial and business activities for 2012 in accordance with its powers and on the basis of the approved plan.

Remuneration

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



The document is available on the Group's website:
<http://nlmk.com/docs/tree/regulationson.pdf>

External auditors

The Group's General Shareholder Meeting selects auditors on an annual basis who will verify the results of the Group's financial and operating performance. The Audit Committee advances candidates for Group auditor who are recognized independent auditors with strong professional reputations for consideration by the Board of Directors.

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

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

In 2012, ZAO PricewaterhouseCoopers Audit was selected to be the auditor for NLMK at the Annual General Shareholder Meeting in order to conduct an audit of financial statements prepared in accordance with the Russian Accounting Standards (RAS) and the US Generally Accepted Accounting Principles (US GAAP).

The amount of compensation paid to ZAO PricewaterhouseCoopers Audit is recommended to the Board of Directors by the Audit Committee based on the calculation of the planned expenditures for working hours and the hourly rates of the auditor's professionals specified in the fee proposal.

Remuneration

The Board of Directors has determined the amount of remuneration for audit services (review) of the US GAAP consolidated financial statements of NLMK for H1 2012, 9M 2012, 12M 2012 and Q1 2013, and the RAS Statements for 2012 to be US\$ 2,300,000 (excluding VAT).

Independence of external auditors

In order to ensure the independence of its auditors, ZAO PricewaterhouseCoopers Audit regularly rotates the key staff in its audit working group (as least once every seven years).

The Group has hired ZAO PricewaterhouseCoopers Audit to provide consulting (non-audit) services. The management of NLMK has conducted the necessary procedures, and is sure that these services do not affect the independence of the auditor and are not related to financial reporting. The share of consulting (non-audit) services provided by ZAO PricewaterhouseCoopers Audit for NLMK in 2012 amounted to less than 15% of the total amount of services performed.

Board of Directors

Role of the Board of Directors

The role of the Board of Directors of NLMK, which represents the interests of the shareholders, is one of the most important in the Group's corporate governance system. The Board of Directors is responsible for the general management of the Group; it determines NLMK's long-term strategy and it provides effective monitoring of financial and operating performance. The main purpose of the Board of Directors is to carry out Group management duties in a conscientious and competent fashion in order to increase the value of shares and shareholder wealth, as well as to protect shareholder rights. The Board of Directors treats all shareholders fairly in its decisions and it is not be guided by the interests of any single group of shareholders.

The activities of the Board of Directors of NLMK are governed by the Regulations on the Board of Directors, which can be found on the corporate website.



The document is available on the Group's website:
<http://nlmk.com/docs/tree/regulations-on-the-board-of-directors.pdf>

Members of the Board of Directors have the right to request and the executive bodies and officials of NLMK are required to provide, all information on Company activities, access to documents and the ability to make copies of said documents. The Corporate Secretary of the Group, among other interested officers, monitors whether information requested by the Board of Directors is provided in full and in a timely fashion.

The Board of Directors performs the following functions:

- Identifies priority activities for NLMK.
- Approves NLMK's long-term plans and its main activity and budgetary programmes.
- Convenes Annual and Extraordinary General Shareholder Meetings.
- Forms the Management Board of NLMK, as well as determines its structure and composition.
- Makes recommendations to the General Shareholder Meeting on the size of dividends on shares and the procedure for their payment.
- Approves the Group's internal documents.
- Uses the reserve fund and other Group funds.
- Approves the Group's Registrar and the terms of his or her contract, as well as terminates the said contract.
- Approves large transactions and related party transactions.
- Makes decisions with regard to NLMK's participation in other organizations.
- Forms Committees under the Board of Directors and approves internal documents governing the activity of said Committees.

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

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

Information (materials) relating to agenda items for meetings of the Board of Directors are submitted to the members of the Board of Directors. Decisions by the Board of Directors are adopted by a simple majority of members present at the meeting of the Board of Directors, except as stipulated by the Group Charter and the law. Each member of the Board of Directors is entitled to one vote.

Involvement of the Board of Directors in the risk management system

The NLMK Board of Directors assesses strategic risks (determining the company's strengths and weaknesses, its opportunities and the threats that it may face); it approves internal control procedures for risk management and it ensures compliance, efficiency analysis, and improvement of such procedures.

Composition of the Board of Directors

Members of the Board of Directors may be individuals who are elected at the General Shareholder Meeting and nominated by the shareholders or by the Board of Directors. The composition of the Board of Directors is determined by corporate documents. The Board of Directors may include executive directors, the number of whom shall not exceed one quarter of the total number of members of the Board of Directors of the Group. Since 2005, independent directors have been elected to the Board of Directors of NLMK in accordance with international best practice in corporate governance and the provisions of the Group's corporate documents. The Group is interested in having at least three independent directors on the Board.

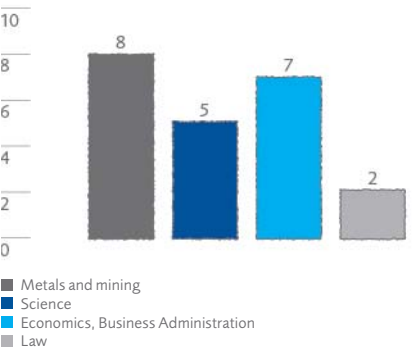
Members of the Board of Directors are elected by cumulative voting at the General Shareholder Meeting for a period lasting until the next Annual Meeting. Candidates with the highest number of votes are elected to the Board of Directors.

As at 31 December 2012, the Board of Directors consists of nine people, including three members of the Board of Directors who are independent.

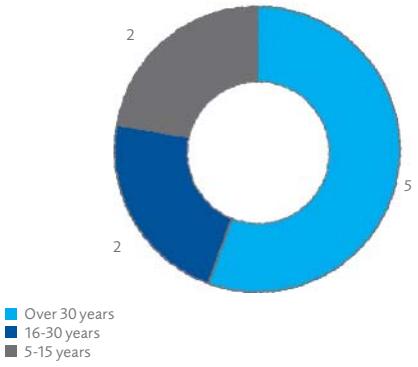
Composition of the Board of Directors of NLMK as at 31 December 2012

Full name	Position	Years on the Board	Independent	Strategic Planning Committee	Audit Committee	Human Resources, Remuneration, and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	16		Chairman		Chairman
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	16		✓		✓
Oleg Bagrin	Member of the Board of Directors	8		✓		✓
Benedict Sciorino	Member of the Board of Directors	1	Yes	✓	Chairman	
Helmut Wieser	Member of the Board of Directors	2	Yes	✓		
Nikolai Gagarin	Member of the Board of Directors	11			✓	
Karl Doering	Member of the Board of Directors	6		✓	✓	
Karen Sarkisov	Member of the Board of Directors	3		✓	✓	
Franz Struzl	Member of the Board of Directors	2	Yes	✓	✓	

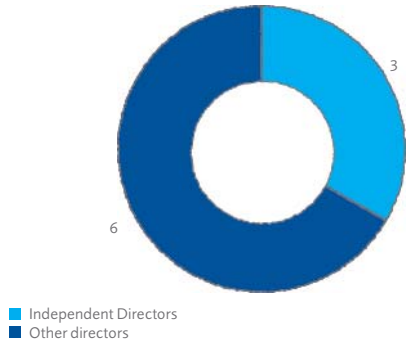
Directors' expertise and professional background



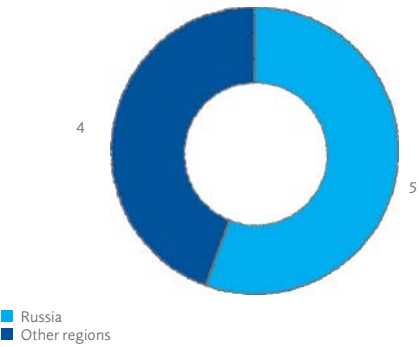
Directors' experience in the steel sector



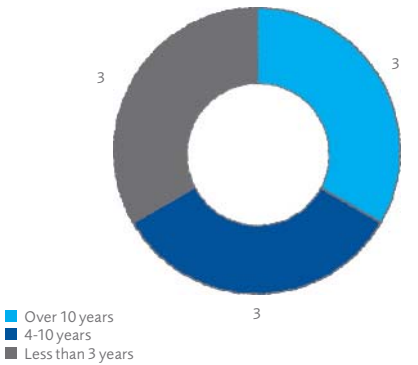
Independent Directors on the Board



Directors' location



Directors' length of tenure*



* As of December 31, 2012

Chairman of the Board of Directors

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

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

Independent Directors

In line with best corporate governance practice, independent directors are elected to the company's Board of Directors. Independent directors must be independent from company officers, their affiliates, or major contractors, and must not be involved with NLMK in any way which could influence their independent judgement. The detailed criteria for independent directors are stated in NLMK's corporate documents and correspond to leading international practice in corporate governance.

The period of time for which a member of the Board of Directors can retain their independent status is restricted. Anyone who is a member of the Board for more than five years cannot be considered an independent director.

Independent directors have the same rights as other members of the Board of Directors, and their votes have equal weighting in the decision-making process. Candidates for election to the Board of Directors as an Independent Director at the General Shareholders' Meeting are put forward in the usual manner by the Board of Directors or by shareholders with a minimum 2% share in the company.

More detailed information on the criteria for independent directors and their participation in the governance of the company is available on the NLMK website.



The information is available on the Group's website (<http://nlmk.com/investor-relations/governance/directors-independence>) and in the company's Corporate Governance Code (<http://nlmk.com/docs/tree/corporate-governance-code.pdf>)

According to the Group's effective corporate documents, there should be at least three independent directors on the company's Board. This is currently the case, and the three independent directors on the Board of Directors are Benedict Sciortino, Helmut Wieser, and Franz Struzl, all of whom have invaluable experience in the Metals & Mining industry.

The Board of Directors' activity in 2012

In 2012 there were 11 meetings of the Board of Directors of NLMK, seven of which were held by absentee ballot.

The following are the main issues that were examined by the Group's Board of Directors in 2012:

- Reviewing proposals on the agenda of the General Shareholder Meeting.
- Convening and holding the Annual General Shareholder Meeting on the results of 2011 and an Extraordinary General Shareholder Meeting.
- Electing the Chairman of the Board of Directors and the Deputy Chairman of the Board of Directors and the formation of Committees under the Board of Directors of NLMK.
- Approving the structure and composition of the NLMK Management Board.
- Approving decisions to issue and float bonds; approving reports on the results of the issue.
- Approving the consolidated budget of the Group.
- NLMK's participation in other organizations.
- Approving NLMK's internal documents.
- Approving related party transactions.
- Approving the amount of payment for NLMK auditor services.
- Establishing the Company's priority areas of activity.

The Board of Directors's progress report on the development of the Group's priority areas of activity¹ can be found in the 'Strategic Review' and 'Performance Review' sections.

¹ FFMS requirement, in accordance with the 'Disclosure Provisions for Issuers of Securities'.

**Board of Directors
Achievements in 2012**

- The new composition of the Management Board was approved; a number of new positions were added that were needed in order to enhance the effectiveness of corporate governance
- A decision was made to organize a new programme of rouble exchange bonds worth a total of RUB 50 billion
- The Group's consolidated budget for 2013 was approved
- Benedict Sciortino's candidacy for independent member of the Board of Directors for voting at the AGM, was approved
- Oleg Bagrin's candidacy for the post of NLMK President for voting at the AGM, was approved
- Recommendations to the AGM were submitted concerning the amount of dividends on shares for 2011

Priorities for 2013

- Defending the interests of shareholders
- Increasing the effectiveness of corporate governance
- Specifying the Group's strategic priorities and monitoring their achievement

Participation of Members of the Board of Directors in the Meetings of this Body in 2012

Board of Directors' Member	Participation in meetings
Vladimir Lisin	11
Vladimir Skorokhodov	11
Oleg Bagrin	11
Benedict Sciortino	7 ¹
Helmut Wieser	11
Nikolai Gagarin	11
Karl Doering	11
Karen Sarkisov	11
Franz Struzl	11

¹ Benedict Sciortino was elected as a member of the Board of Directors at the Annual General Shareholder Meeting held on May 30 2012.

Remuneration and compensation for the members of the Board of Directors
Remuneration

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

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

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


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

Compensation

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

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

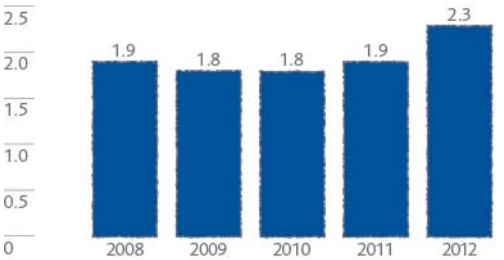
Information on the decision-making process of the General Shareholder Meeting concerning the payment of compensation to members of the Board of Directors, as well as Regulations on the Board of Directors members' remuneration are available on NLMK website.

 Documentation is available on the Group's website: <http://nlmk.com/investor-relations/governance/corporate-documents>

Remuneration and compensation paid to Board members in 2012 (US\$ m)	
Item	2012
Payments made to members of the Board of Directors	2.3
Including remuneration	2.2

"Remuneration is paid to the members of the Board of Directors for reasonable and faithful exercise of their rights and their duties in the interests of NLMK. Remuneration is paid to a particular member of the Board of Directors of the Group in the form of a fee, which is calculated on the basis of the extent of his or her personal involvement in the ongoing work of this governing body, in accordance with regulations."

Directors' remuneration and compensation (US\$ m)



Committees of the Board of Directors

The Board of Directors has convened the following permanent committees in order to address specific tasks and in accordance with the best corporate governance practices and the Regulations on the Board of Directors of NLMK:

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

Strategic Planning Committee



"It is reassuring to see that the strategy that has been gradually implemented by the Group has enabled us to remain one of the most efficient steel companies in the world over the course of several years. We have every chance of maintaining and strengthening our leading position in the industry. We have successfully completed a period of extensive growth and, in the medium-term, we see opportunities to increase the value of the Group through further reduction of production costs and improvement of management systems. This will allow us to increase the efficiency and stability of our business. Moreover, we are planning to further develop our raw materials division, integrate new technologies, improve the efficiency of core and secondary production and to optimize business processes."

Vladimir Lisin

Chairman of the Strategic Planning Committee

Composition of the Committee*

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

* as at 31 December 2012

Role of the Committee

The Strategic Planning Committee develops and submits recommendations to the Board of Directors on the following:

- Establishing the company's priority areas of activity.
- The development strategy of the Group.
- Projects that increase the effectiveness of the Company's business over the long term, increase its assets and profitability and attract investment.

The Strategic Planning Committee is completely accountable to the Board of Directors of NLMK and acts as an advisory body. The activity of the Committee is governed by the 'Regulations on the Strategic Planning Committee', which can be found on the corporate website.



Documentation is available on the Group's website:
<http://nlmk.com/docs/tree/regulations-on-strategic-planning-committee.pdf>

Participation of Members of the Board of Directors in Committee Meetings in 2012

Full name	Participation in meetings in 2012*
Vladimir Lisin	4(5)
Oleg Bagrin	5(5)
Vladimir Skorokhodov	5(5)
Karl Doering	3(5)
Benedict Sciortino**	2(3)
Karen Sarkisov	5(5)
Helmut Wieser	4(5)
Franz Struzl	3(5)
Alexey Lapshin	3(5)

* The number of Committee meetings held during the given member's tenure as member of the Committee is indicated in brackets

** Benedict Sciortino became member of the Committee in June 2012 (replacing Bruno Bolfo); the other members remained the same

Strategic Planning Committee Achievements in 2012

- Comprehensive work on updating the Group's long-term strategy was continued
- Areas of development for the Group and its production facilities were determined
- Investment projects as part of NLMK's areas of development were determined

Goals for 2013

- Develop recommendations for the Group's strategic areas of development
- Monitor the implementation of planned investment projects

Results of the Committee's activity for 2012

In 2012, the Strategic Planning Committee held five meetings (all meetings were held in person). The Committee continued its comprehensive work on updating the Group's long-term strategy, which will be completed and presented to the Board of Directors in early 2013. Decisions were made on the following issues:

- Areas for the development of divisions, companies, and operating units.
- Investment projects as part of areas of development.

Priorities for 2013

In 2013, the Committee will continue its work to develop recommendations on the Company's strategic areas of development. This is especially important in the current volatile market conditions that the industry and the economy as a whole are experiencing.

Audit Committee



"The role of the Audit Committee encompasses not only auditing and related procedures; it also includes all-round consulting on the various aspects of business operations and is an essential component of the Risk Management System. The management needs an independent confirmation of the results in order to make strategic decisions on the future development of the Group. Investors and shareholders need reliable data to weigh potential profit against possible risks that might impact upon the Group's performance. Suppliers and creditors are interested in the Group's financial solvency as an indicator of its ability to pay off debts, whereas workers are looking at business profitability to estimate their financial and employment prospects. For all of these parties a well-informed and effective Audit Committee is essential to the integrity of the Group."

Benedict Sciortino

Chairman of the Audit Committee, Independent Director

Composition of the Committee*

Full name	Position on the Committee	Position in the Company
Benedict Sciortino	Chairman of the Committee	Independent Member of the Board of Directors
Nikolai Gagarin	Member of the Committee	Member of the Board of Directors
Karl Doering	Member of the Committee	Member of the Board of Directors
Karen Sarkisov	Member of the Committee	Member of the Board of Directors
Franz Struzl	Member of the Committee	Independent Member of the Board of Directors

* as at 31 December 2012

Role of the Committee

The Audit Committee develops and submits recommendations to the Board of Directors for the effective auditing of the Group's financial and economic performance, including those relating to the following issues:

- Conducting independent audits of financial statements.
- Quality of audit services.
- Observing independent auditing requirements.
- Selecting an external auditor.
- Evaluating the effectiveness of the internal audit system.

The activity of the Audit Committee is fully accountable to the Board of Directors of NLMK and is an advisory body. The activity of the Audit Committee is governed by the 'Regulations on the Audit Committee', which can be found on the corporate website.



Documentation is available on the Group's website:
<http://nlmk.com/docs/tree/regulations-on-audit-committee.pdf>

Participation of Members of the Board of Directors in Committee Meetings in 2012

Full name	Participation in meetings in 2012*
Benedict Sciortino	2(2)
Oleg Bagrin	3(3)
Nikolai Gagarin	0(1)
Karl Doering	4(4)
Karen Sarkisov	0(1)
Franz Struzl	4(4)

* The number of Committee meetings held during the given member's tenure as member of the Committee is indicated in brackets

Results of the Committee's activity for 2012

In 2012 there were four meetings of the Audit Committee, in which the following decisions were made and measures adopted for their implementation:

- A proposal was prepared and submitted for the Annual General Shareholder Meeting recommending that the RAS financial (accounting) statements of the Group for 2011 be approved.
- A draft assessment of the external auditor's audit report of the Group's RAS financial (accounting) statements for 2011 was prepared and approved. A proposal was submitted to the Board of Directors to confirm the assessment of the audit report as material to be presented at the Annual General Shareholder Meeting.

Audit Committee

Achievements in 2012

- Hedging strategy was approved (hedging interest rates)
- Transition plan to International Financial Reporting Standards was reviewed
- Mechanisms to improve the internal control system were reviewed
- Recommendations were made on selecting an external auditor and its remuneration
- Recommendations were made to approve the RAS and US GAAP statements for 2012, and the interim US GAAP reporting was approved

Goals for 2013

- Further improvement of the internal control system
- Improvement of the risk management system
- Cooperation with external auditors

- A proposal was prepared for the Board of Directors containing recommendations for the General Shareholder Meeting on the Group's external auditor in 2012 and the amount of its remuneration.
- A recommendation to approve the US GAAP consolidated financial statements for the year 2011 was prepared and submitted to the Board of Directors.
- The US GAAP condensed interim consolidated financial statements for Q1, H1, and the first 9 months of 2012 were reviewed and approved.
- Reports were reviewed on the results of the activity of the Internal Audit Directorate of the Company for 2011, H1 2012, and Q3 2012, including issues relating to the implementation of a project to improve the internal control system at NLMK and throughout the Group's companies.
- A recommendation to improve the regulation governing internal audits of the Group's financial and operating performance, as well as the regulation governing the Audit Committee of NLMK in a new edition, was proposed and submitted to the Board of Directors.
- The 2012 hedging strategy was approved as it relates to hedging interest rates.
- The Group's transition plan to International Financial Reporting Standards was reviewed.

Priorities for 2013

In 2013, the Committee will continue its work to improve the control system, risk management system and cooperation with external auditors.

Human Resources, Remuneration and Social Policies Committee



"As the Chairman of the Human Resources, Remuneration and Social Policies Committee, I personally place utmost importance on our HR strategy. The people who work for the Company are the most important element in its success, which is reflected in the well-being and quality of life of our employees and their families. We are creating the best possible environment for career promotions and professional development and we always adhere to high occupational health and safety standards. All of this ultimately results in an increase in productivity and, subsequently, pay rises and improvements in the standard of living for our staff."

Vladimir Lisin

Chairman of the Human Resources, Remuneration and Social Policies Committee

Role of the Committee

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

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

The activity of the Human Resources, Remuneration and Social Policies Committee is governed by the 'Regulations on the Human Resources, Remuneration and Social Policies Committee, which can be found on the corporate website.



Documentation is available on the Group's website: <http://nlmk.com/docs/tree/regulations-on-personnel-remunerations-and-social-policy-committee.pdf>

Human Resources, Remuneration, and Social Policies Committee Achievements in 2012

- Proposals were submitted on the candidates for independent directors (Benedict Sciortino, Helmut Wieser, Franz Struzl)
- Proposals were submitted on the candidates for the position of President of the Group (Oleg Bagrin)
- The candidacies of managers for Management Board member positions (G. Kumar, A. Saprionov, A. Burayev, G. Fedorishin, S. Filatov) were approved
- Proposals were submitted on the amount of remuneration for members of the Board of Directors on the basis of 2011 annual results
- A KPI-based remuneration system for members of the Management Board was approved
- The implementation of the Production Efficiency Improvement System was continued
- A common, open-ended Personnel Training and Development Programme was approved

Goals for 2013

- Increase the effectiveness of corporate governance
- Continue to improve the human resources policy
- Develop new social projects and monitor their implementation
- Improve the Group's environmental safety practices

Composition of the Committee*

Full name	Position on the Committee	Position in the Company
Vladimir Lisin	Chairman of the Committee	Chairman of the Board of Directors
Vladimir Skorokhodov	Member of the Committee	Deputy Chairman of the Board of Directors
Oleg Bagrin	Member of the Committee	Member of the Board of Directors, President (Chairman of the Management Board)
Stanislav Tsyrlin	Member of the Committee	Vice President, HR & Management System
Alexey Lapshin	Member of the Committee	Advisor to the Chairman of the Board of Directors
Sergey Melnik	Member of the Committee	Director of Human Resources and General Affairs

* as at 31 December 2012

Participation of Members of the Board of Directors in Committee Meetings in 2012

Full name	Participation in meetings in 2012*
Vladimir Lisin	3(3)
Vladimir Skorokhodov	1(1)
Oleg Bagrin**	1(0)
Stanislav Tsyrlin	3(3)
Alexey Lapshin	3(3)
Sergey Melnik	3(3)

* The number of Committee meetings held during the given member's tenure as member of the Committee is indicated in brackets

** Oleg Bagrin was in attendance at one Committee meeting (not being a member of the Committee at the time)

Results of the Committee's activity for 2012

Three meetings of the Committee on Human Resources, Remuneration and Social Policies were held in 2012 (including 2 remote meetings). The following issues were discussed at the meetings:

- Implementation of a Production Efficiency Improvement System.
- Development of a common, open-ended Personnel Training and Development Programme.

- Prospects for the creation of an industry standard for the development of new educational programmes that comply with current qualification requirements for steelmaking personnel.
- Proposals on the amount of remuneration of members of the Board of Directors on the basis of the 2011 annual results.
- Proposed candidates for independent directors submitted to the Board of Directors (Benedict Sciortino, Helmut Wieser, Franz Struzl).
- Proposed candidates for President of the Company submitted to the Board of Directors (Oleg Bagrin).
- Approval of the candidacies of managers for Management Board member positions (G. Kumar, A. Saprionov, A. Burayev, G. Fedorishin, S. Filatov) as well as for positions as the heads of the main shop/production units and general directors of subsidiary companies.

Priorities for 2013

In 2013, the Committee will continue to work on improving the Group's human resources policy, personnel development and on implementing social projects and environmental protection measures.

Management Board

Role of Management Board

The single-person executive body – the President (Chairman of the Management Board) – and the collegial executive body (the Management Board) manage the day-to-day activities of the Group.

The main purpose of the Management Board is to ensure the efficient operation of the Group. The Management Board is guided by the following principles:

- Efficient and objective decision-making that favours the interests of the Group and its shareholders.
- Fair, timely, and efficient execution of the decisions of the General Shareholder Meeting and the Board of Directors.
- Cooperation with government agencies and local authorities on the most important issues.

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

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

The activity of the Management Board is governed by the 'Regulations on the Management Board', which are available on our corporate website.



Documentation is available on the Group's website:
<http://nlmk.com/docs/tree/regulations-on-management-board.pdf>

Composition of the Management Board

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

The President (Chairman of the Management Board) is elected by the General Shareholder Meeting for a period lasting until the next Annual General Shareholder Meeting, unless otherwise determined by a decision of the General Shareholder Meeting.



"Our goal is to optimize the management of NLMK Group procurement, based upon professional standards and best practices, in cooperation with internal and external stakeholders. We are working on several initiatives as part of a complete transformation of the process, covering three key areas: people, processes and systems. The project was approved by senior management and is supported by cross-functional teams from production, maintenance, and technology. I believe that the implementation of a number of these initiatives in 2013 will lead to an increase in the effectiveness of the Group's procurement system."

Brijesh Garg

Vice President, Procurement; new Management Board member



"The Group is unique in terms of the complexity of the logistical tasks handled and the volume of the logistics business, with no equals in the ferrous metallurgy industry in Russia. All of this requires maximum responsibility from the logistics management team for the quality and efficiency of their work. We have structured logistics into three main areas: external, internal, and intradepartmental logistics. These are all interrelated and an effect achieved in one creates synergy in the other areas. All our actions are aimed at the same goal – improving efficiency and reducing costs. We are making every effort to ensure that NLMK Group's logistics are the best in the world, and I am confident that we have the capabilities to achieve this."

Alexander Sapronov

Vice President, Logistics; new Management Board member



"I began working at the plant in 1988. My career began as a rolled stock heat-treater and led me to become the Director of Long Products and Metalware and a Member of the Management Board. In my view, my task as a manager is to ensure that the division functions smoothly and to continuously improve operational efficiency. The launch of the new NLMK Kaluga mini mill is one of my primary objectives for 2013."

Alexander Burayev

Director for Long Products and Metalware; new Management Board member



"NLMK has always been characterized by its unique combination of operational effectiveness, a reliable business model and financial stability. My main task is to maintain and develop this combination. I believe that I will be able to bring to bear my practical experience in financial management, strategic development and business process optimization within NLMK to meet the challenge of improving business efficiency – one of the key elements of the Group's strategy."

Grigory Fedorishin

New Vice President, Finance; Management Board member



"My entire professional career has been bound up inextricably with the steel industry. Over my many years in the industry, I have acquired a great deal of practical experience of managing steel production and optimizing technological processes which, I am sure, will help me to continue to meet the challenges of improving NLMK's business efficiency. Our current achievements provide the foundation that will enable us to strengthen our leading position within the industry and to retain our status as one of the most efficient integrated steel producers."

Sergey Filatov

Managing Director; new Management Board member

As at 30 January 2013, the Management Board is made up of 11 people.

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

Substantial changes were made over the course of 2012 to the composition of the Management Board. By the decision of the Board of Directors, the number of members of the Management Board was increased to 11 (previously, the Board consisted of eight representatives of the Group's management). Representatives who are responsible for important areas, such as procurement, logistics, and long products, have been added to the Management Board in order to increase decision-taking efficiency. The changes that have been made will allow more effective management of NLMK Group's various business processes.

In addition, changes have been made to the composition of the Management Board. A new President (Chairman of the Management Board) was elected in October 2012 at an Extraordinary General Shareholder Meeting of NLMK. Oleg Bagrin, who has served as a member of the Board of Directors of the Company for eight years, assumed this position. During this period, he was active in elaborating NLMK's development strategy and served as a member of the Strategic Planning Committee (including as Chairman of the Committee).

Grigory Fedorishin was named Vice President of Finance prior to which he worked as NLMK Director of Strategy and Business Development. The position of Managing Director was introduced and its main responsibilities are organizing and monitoring the activity of the main production site in Lipetsk. Sergey Filatov was approved for this position; before this, he worked as Deputy Senior Vice President -Deputy General Director for Production and Technology. He has significant experience of working in the Russian steel sector.

Changes to the composition of the Management Board

The composition of NLMK's Management Board as at 01 January 2012:

Full name	Position
Alexey Lapshin	President (Chairman of the Management Board)
Igor Anisimov	Senior Vice President, Deputy Chairman of the Management Board
Galina Aglyamova	Vice President, Finance
Dmitry Baranov	Vice President, Sales
Alexander Gorshkov	Vice President, Iron Ore Division
Yuri Larin	Vice President, Development & Environment
Alexander Saprykin	Vice President, Coal Division
Stanislav Tsyrlin	Vice President, HR & Management System

The composition of NLMK's Management Board as at 06 November 2012:

Full name	Position
Oleg Bagrin	President (Chairman of the Management Board)
Igor Anisimov	Senior Vice President, Deputy Chairman of the Management Board
Galina Aglyamova	Vice President, Finance
Dmitry Baranov	Vice President, Sales
Alexander Burayev	Director for Long Products and Metalware
Brijesh Garg	Vice President, Procurement
Alexander Gorshkov	Vice President, Iron Ore Division
Yuri Larin	Vice President, Technology Development & Operational Efficiency
Alexander Sapronov	Vice President, Logistics
Alexander Saprykin	Vice President, Coal Division
Grigory Fedorishin	Director of Strategy and Business Development
Stanislav Tsyrlin	Vice President, HR & Management System

Activity of the Management Board in 2012

In 2012, there were 42 meetings of the Management Board, including 13 meetings that were held using absentee ballots. The following issues were considered at these meetings:

- Recommendations were submitted to the Board of Directors, as well as to the management units of subsidiaries and affiliated organizations, on the approval of the budget, approval of related party transactions and issuing and floating NLMK bonds.
- Participation/withdrawing participation of the Group in other companies.
- Approval of draft decisions on matters within the competence of the General Shareholder Meetings of companies in which the Group is the sole participant/shareholder.
- Examination of the draft annual report of NLMK for 2011 and annual financial statements, including the profit and loss report on the basis of the results of the fiscal year.
- Examination of the integrated risk management system report.
- Key performance indicators.
- The Group's investment programme and investment budget.
- Examination of the results of NLMK activity as they relate to meeting budget indicators and forecasting the performance of the budget.
- Examination of target indicators for the budgets of Group companies.
- Lowering operating expenditures.
- Approving the programme for increasing the energy efficiency of NLMK companies.

Participation of Members of the Management Board in Meetings of this body in 2012

Management Board Member	Participation in meetings
Oleg Bagrin	14 ¹
Alexey Lapshin	28 ²
Igor Anisimov	37
Dmitry Baranov	42
Alexander Burayev	11 ³
Brijesh Garg	11 ³
Alexander Gorshkov	41
Yuri Larin	39
Alexander Sapronov	11 ³
Alexander Saprykin	41
Grigory Fedorishin	11 ³
Galina Aglyamova	42
Stanislav Tsyrlin	42

¹ Oleg Bagrin has been President (Chairman of the Management Board) of the Company since 25 October 2012

² Aleksey Lapshin was a member of the Management Board until 6 November 2012

³ Alexander Burayev, Brijesh Garg, Alexander Sapronov, and Grigory Fedorishin were confirmed as members of the Management Board at the 6 November 2012 meeting of the Board of Directors

Remuneration and compensation of members of the Management Board

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

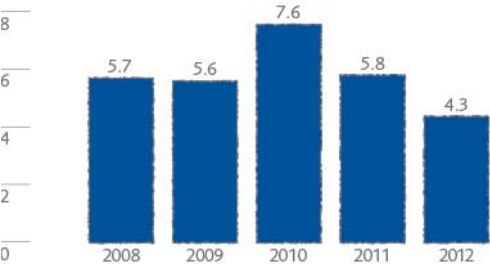
In accordance with the Regulations on the Management Board, members of the Board shall receive remuneration and compensation for expenses related to the performance of their responsibilities as members of the Board for their period of service. The conditions and procedure for remuneration of Management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

- The following principles outline the mechanism for determining the amount of compensation that is awarded to NLMK top management:
- Honest and efficient performance of their duties by members of the Management Board.
 - Rational use of the rights that are granted to them.
 - The size of the bonuses awarded to members of the Management Board is dependent on their achievement of key performance indicators (KPIs) and on the Company’s overall results during the reporting period.
 - Active involvement by members of the Management Board in the work of the Group’s executive bodies.

Remuneration and compensation paid to Management Board members in 2012 (US\$ m)

Item	2012
Payments made to members of the Management Board	4.3
Including bonuses and salary	4.3

Remuneration and compensation to Management Board members (US\$ m)



Shares owned by members of the Management Board

Full name	Position	Share of the authorized capital stock of NLMK
Oleg Bagrin	Member of the Board of Directors President (Chairman of the Management Board)	Not an NLMK shareholder
Dmitry Baranov	Vice President, Sales	Not an NLMK shareholder
Alexander Burayev	Director for Long Products and Metalware	0.00005%
Brijesh Garg	Vice President, Procurement	Not an NLMK shareholder
Alexander Gorshkov	Vice President, Iron Ore Division	Not an NLMK shareholder
Yuri Larin	Vice President, Technology Development & Operational Efficiency	0.00083%
Alexander Sapronov	Vice President, Logistics	Not an NLMK shareholder
Alexander Saprykin	Vice President, Strategic Raw Materials Division	Not an NLMK shareholder
Grigory Fedorishin	Vice President, Finance	Not an NLMK shareholder
Sergey Filatov	Managing Director	Not an NLMK shareholder
Stanislav Tsyrlin	Vice President, HR & Management System	Not an NLMK shareholder



For more information on the structure of NLMK share capital

Management Board Achievements in 2012

The Management Board promptly and effectively responded to the significant deterioration of the situation in the main sales markets that occurred in H2 2012. A set of measures was implemented immediately after the beginning of the economic crisis to enhance the Group’s efficiency:

- The production of low-margin products was reduced
- Investments in Upgrade and Development Programme projects that were not considered to be high-priority were reduced or postponed
- Managerial expenses were reduced
- Operating costs were reduced, and measures were also implemented to reduce consumption of raw materials supplied by third-party vendors in favour of using the Group’s own raw materials

As a result, the consistent efforts of the Management Board in 2012 allowed the Group to achieve strong financial and operating performance indicators despite the difficult market situation.

Priorities for 2013

- Increasing the efficiency of the business
- Further decreasing costs
- Continuing to implement the programme to increase energy efficiency
- Monitoring the performance of the budget for 2013
- Improving occupational health and safety indicators

"The conditions and procedure for remuneration of Management Board members are governed by an agreement that is concluded with Board members in accordance with the Regulations for Management Board Member Remuneration approved by the Board of Directors acting on advice of the Human Resources, Remuneration, and Social Policies Committee."

Maintaining a two-way dialogue with shareholders



"Our relationship with the investor community is particularly important to us. For NLMK, our high level of investor transparency is a testament to our strength, offering a test of the soundness of the day-to-day work carried out by the management team.

This is a very important component of the self-discipline that we have consciously embarked upon: if our plans and our course are clear to the market, we can be confident that we are moving in the right direction. Our investor relations programme ensures that any enquiries can be answered swiftly. Information on the Group's activities, its strategy, its competitive advantages, investment projects and risks, and the market situation – all of this can be delivered promptly.

We aim to give clear, timely explanations to our investors of everything that is going on. We share our analysis of where we think the industry is going. The market's high regard for our IR programme is evidence that we are moving in the right direction."

Anton Bazulev

Director of External Communications

Ordinary shares

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

Company's share listings

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

Indices that include NLMK shares (as of March 2013):

- Moscow Stock Exchange (RTS-MICEX) (NLMK's share: 1.02%)
- Moscow Stock Exchange (RTS-MICEX) Metals & Mining (NLMK's share: 15%)

Global Depositary Shares (GDS)

The ratio of Global Depositary Shares to ordinary shares is 1:10. The volume of Global Depositary Shares issued by NLMK and traded on the London Stock Exchange amounted to 7.49% of share capital as of 31 December 2012. On 31 December 2012, GDS were trading at US\$ 20.30.

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

Share price

Ordinary NLMK shares on RTS

	2012	2011
Share price (US\$)		
Maximum	2.19	4.37
Minimum	1.80	1.95
Mean	2.06	3.25
End of year	2.01	1.95
Average volume of daily trade ('000 US\$ /day)	141.4	145.2

Ordinary NLMK shares on MICEX*

	2012	2011
Share price (RUB)		
Maximum	78.67	146.53
Minimum	49.54	60.13
Mean	61.58	98.89
End of year	61.15	62.87
Average volume of daily trade (RUB m/day)	442.39	338.53

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

NLMK Global Depositary Shares on the London Stock Exchange*

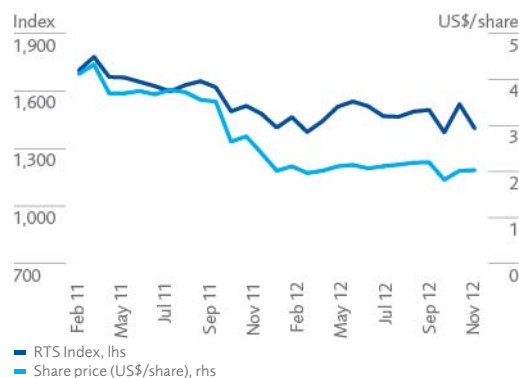
	2012	2011
Price of GDS (US\$)		
Maximum	26.7	51.0
Minimum	14.9	18.4
Mean	20.0	34.3
End of year	20.3	19.6
Average volume of daily trade (US\$ m/day)	14.55	21.27

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

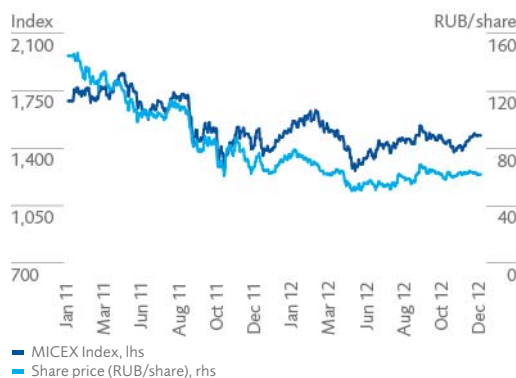


For more information for our shareholders please visit Investor Relations section of the corporate website:
<http://nlmk.com/investor-relations>

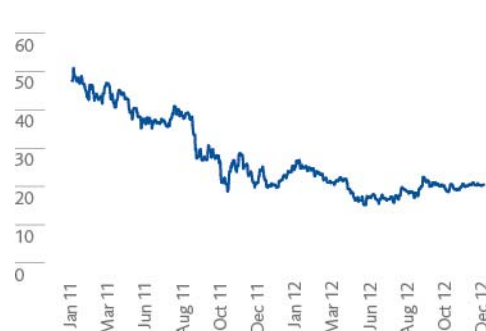
NLMK share price on RTS (US\$/share)



NLMK share price on MICEX (RUB/share)



NLMK GDS price on LSE (US\$/GDS)



"We aim to give clear, timely explanations to our investors of everything that is going on. We share our analysis of where we think the industry is going. The market's high regard for our IR programme is evidence that we are moving in the right direction."

How we communicate with our shareholders

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

The effectiveness of this all-round approach is evident from the list of Russian and international awards received by the Company in 2012:

- Second place in IR Magazine Russia & CIS Awards, 'Best Investor Relations'
- Eighth place in Thomson Reuters Extel Survey Europe, 'Leading Pan-European Investor Relations for Industrial Companies'
- IR Global Rankings, 'Best Financial Disclosure'
- 'Best Annual Report 2011', a series of prizes in nationwide (5 awards and 5 nominations) and international competitions (silver Digital Impact Award)
- 'Best Corporate Website', in the King Worldwide rating of Russian websites

In the words of one Company shareholder, a portfolio manager: "The strategy is strong because it builds off what the company has been doing over a long period of time."

SHORTLISTED **DIGITAL
IMPACT
AWARDS**

Market capitalization

In early 2012, NLMK shares recovered slightly, but towards the end of Q1, the Group's capitalization saw a downward trend against a background of deteriorating market conditions in the steel sector. However, by the end of 2012, the value of the Group's securities had increased to around US\$ 2.00 per share, in line with the level at the end of 2011.

By the end of 2012, shares on the London Stock Exchange were trading at US\$ 2.00 per share (US\$ 20.25 per GDS), consistent with capitalization of US\$ 12.1 billion. NLMK's market capitalization was in line with the general trends seen in the share prices of global steel companies.

Taxation

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

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

Dividends

Our dividend policy

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

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

The amount of dividends payable for each period is approved by the Group's shareholders on the recommendation of the Board of Directors, and will depend on the Group's financial position, operating results, cash flow, outlook, general economic conditions, and other factors.

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

Dividends payable to GDS holders

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

Dividend history** (US\$ m)



* The total dividend payment for the year 2012 is subject to approval by the Annual General Meeting of Shareholders, to be held in June 2013

** Dividends were declared in Russian roubles. The dividend amount per share, as specified in dollars, is based on the Central Bank's rouble to dollar exchange rate on the date on which the dividend is declared

*** In May 2004, as a result of a revaluation of its fixed assets, NLMK issued an additional 5,987,240,000 ordinary shares with a par value of RUB 1 each. Prior to this issue, the share capital of NLMK consisted of 5,987,240 ordinary shares. These additional ordinary shares were distributed among all the shareholders of NLMK according to their share of ownership on the date of the distribution, so that each shareholder received an additional 1,000 shares for each share already owned

Proposals regarding distribution of profits

Number of issued shares	5,993,227,240
Dividends on one issued share with nominal value of RUB 1, RUB (projection)*	0.62
Total dividends based on 2012 results, RUB (projection)*	3,715,800,889

* The amount of dividend payment for 2012 is subject to approval by the Annual General Meeting of Shareholders to be held in June 2013

The Board of Directors recommends that the Annual General Meeting of NLMK Shareholders announce 2012 dividends for ordinary shares in the amount of RUB 0.62 in cash per share.

The Board of Directors recommends that the profit remaining after payment of the dividend is directed towards the implementation of investment programmes and the payment of dividends in subsequent periods.

Corporate documents

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

Financial reporting and disclosure

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

The Company publishes its financial results on a quarterly basis.

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

Financial calendar

Date*	Event
30 January 2013	• Q4 2012 trading update
18 March 2013	• 12M 2012 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
26 March 2013	• 12M 2012 consolidated financial results (US GAAP) • Conference call • Analysts' meeting
16–23 April 2013	• Meeting of the Board of Directors (BoD) • FY 2012 dividend recommendation and notice of the Annual General Meeting of Shareholders
18 April 2013	• Q1 2013 trading update
19 April 2013	• Q1 2013 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
13–17 May 2013	• Q1 2013 consolidated financial results (US GAAP) • Conference call
4–11 June 2013	• Annual General Meeting of Shareholders
18 July 2013	• Q2 2013 trading update
22 July 2013	• Q2 2013 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
5–9 August 2013	• H1 2013 interim financial results (US GAAP) • Conference call • Analysts' meeting
17 October 2013	• Q3 2013 trading update
18 October 2013	• Q3 2013 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
4–8 November 2013	• 9M 2013 interim financial results (US GAAP) • Conference call

* Dates subject to change

Contacts for shareholders

Registrar

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

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

Depository bank

Deutsche Bank Trust Company Americas
New York Headquarters
60 Wall St., New York, NY 10005
USA

London office

Winchester House
1 Great Winchester St.
London EC2N 2DQ
United Kingdom

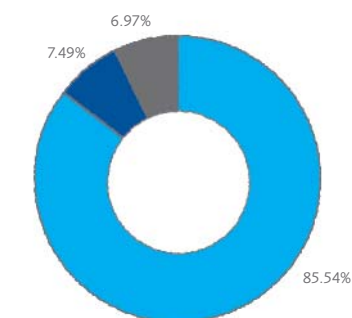
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Tel: +7 (4742) 44 49 89
Email: loskutov_va@nlmk.ru

Sergey Takhiev

Head of Investor Relations
Tel: +7 (495) 915 15 75
Email: ir@NLMK.com

Structure of share capital as at 31 December 2012



- Fletcher Group Holdings Limited
- Deutsche Bank Trust Company Americas (global depository shares traded on the LSE)
- Other shareholders (including shares floating on Russian stock exchanges, companies of which NLMK managers are beneficiaries)



If you wish to be notified by email when new events are added to our calendar, please subscribe to our press releases and announcements at:
<http://nlmk.com/media-center/e-mail-subscription>

Section V: Financial statements

In this section:

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We are Strong

As one of the most efficient steel producers in the world, NLMK consistently achieves excellent financial results.

- A diversified sales portfolio with a large share of HVA products, along with an effective value chain based on vertical integration, low-cost production of steel and manufacture of finished products near the end users, enables the Group to demonstrate a high level of stability and performance independent of external market conditions.
- NLMK maintains a relatively low level of debt, despite significant capital investments in major projects over the past decade.
- The Group's financial stability, its balanced business model and the high level of diversification in its business are highly assessed by independent international ratings agencies. The credit ratings that have been assigned to us by the three leading international agencies are investment-grade.

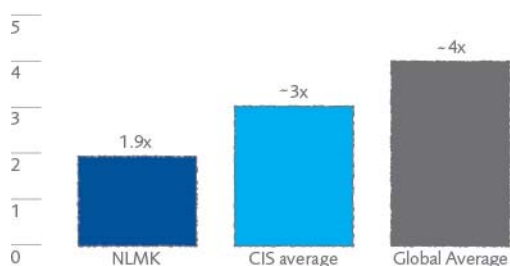


For more information on our financial performance



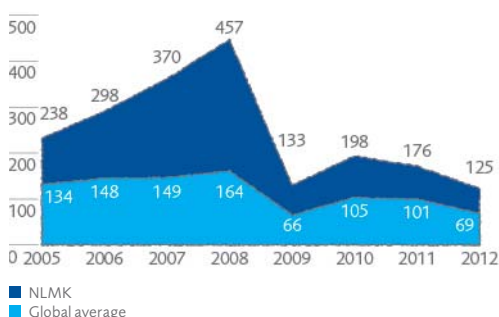
For more information on our income statements

Net debt/EBITDA of steel companies



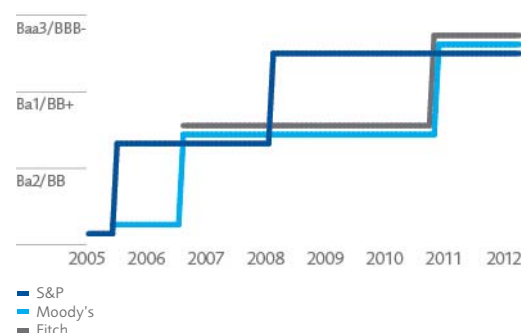
Source: NLMK estimates

EBITDA per tonne of sales (US\$/t)



Sources: WSD, NLMK

Evolution of NLMK credit ratings





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, 2012, 2011 and 2010, 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 2012, 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 2012 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.



O. Bagrin

President (Chairman of the Management Board)



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

We have audited the accompanying consolidated financial statements of OJSC Novolipetsk Steel (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2012, 2011 and 2010, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries at 31 December 2012, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit

March 25, 2013



Financial statements: **Consolidated balance sheets**
As at December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

	Note	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	4	951,247	797,169	747,979
Short-term investments	5	106,906	227,279	422,643
Accounts receivable and advances given, net	6	1,490,951	1,572,641	1,259,596
Inventories, net	7	2,826,933	2,828,433	1,580,068
Other current assets		30,394	59,355	51,994
Deferred income tax assets	17	62,959	18,887	43,069
		5,469,390	5,503,764	4,105,349
Non-current assets				
Long-term investments	5	19,293	8,420	687,665
Property, plant and equipment, net	8	11,753,157	10,569,828	8,382,478
Intangible assets, net	9(b)	141,922	158,611	181,136
Goodwill	9(a)	786,141	760,166	494,654
Deferred income tax assets	17	249,565	237,113	21,387
Other non-current assets		38,052	19,274	26,356
		12,988,130	11,753,412	9,793,676
Total assets		18,457,520	17,257,176	13,899,025
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	10	1,462,105	1,622,679	1,107,434
Short-term borrowings	11	1,816,169	1,306,263	525,559
Current income tax liability		23,800	10,994	18,803
		3,302,074	2,939,936	1,651,796
Non-current liabilities				
Deferred income tax liability	17	792,240	713,666	400,601
Long-term borrowings	11	2,815,554	3,073,535	2,098,863
Other long-term liabilities	12	457,362	424,878	193,951
		4,065,156	4,212,079	2,693,415
Total liabilities		7,367,230	7,152,015	4,345,211
Commitments and contingencies				
		–	–	–
Stockholders' equity				
NLMK stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2012, 2011 and 2010	14(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		306,391	306,391	98,752
Accumulated other comprehensive loss		(997,035)	(1,489,442)	(916,901)
Retained earnings		11,582,368	11,098,635	10,261,214
		11,123,164	10,147,024	9,674,505
Non-controlling interest		(32,874)	(41,863)	(120,691)
Total stockholders' equity		11,090,290	10,105,161	9,553,814
Total liabilities and stockholders' equity		18,457,520	17,257,176	13,899,025

The consolidated financial statements as set out on pages 124 to 147 were approved on March 25, 2013.

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

Financial statements: **Consolidated statements of income**
For the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

	Note	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Revenue	22	12,156,592	11,728,556	8,350,748
Cost of sales				
Production cost		(8,494,438)	(7,780,243)	(4,933,236)
Depreciation and amortization		(767,715)	(588,707)	(469,418)
		(9,262,153)	(8,368,950)	(5,402,654)
Gross profit		2,894,439	3,359,606	2,948,094
General and administrative expenses		(448,268)	(556,169)	(263,146)
Selling expenses		(1,143,610)	(972,685)	(708,868)
Taxes other than income tax		(169,786)	(165,073)	(123,311)
Impairment losses	9(a)	—	—	(58,179)
Operating income		1,132,775	1,665,679	1,794,590
Loss on disposals of property, plant and equipment		(38,051)	(29,293)	(9,657)
(Losses) / gains on investments, net		(2,828)	11,922	(27,991)
Interest income		28,581	29,531	45,071
Interest expense		(68,462)	—	(15,865)
Foreign currency exchange gain / (loss), net		3,282	18,662	(59,262)
Other expenses, net		(140,428)	(14,337)	(4,598)
Income before income tax		914,869	1,682,164	1,722,288
Income tax expense	17	(304,712)	(421,034)	(390,972)
Income, net of income tax		610,157	1,261,130	1,331,316
Equity in net earnings / (losses) of associates	5	276	54,272	(107,338)
Net income		610,433	1,315,402	1,223,978
Add: Net (income) / loss attributable to the non-controlling interest		(14,628)	42,192	31,065
Net income attributable to NLMK stockholders		595,805	1,357,594	1,255,043
Earnings per share – basic and diluted:				
Net earnings attributable to NLMK stockholders per share (US dollars)		0.0994	0.2265	0.2094
Weighted-average shares outstanding, basic and diluted (in thousands)	15	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 comprehensive income and statements of stockholders' equity**

For the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

Consolidated statements of comprehensive income

	Net income	Cumulative translation adjustment	Comprehensive income	Non-controlling interest	Comprehensive income attributable to NLMK stockholders
For the year ended December 31, 2010	1,223,978	(115,135)	1,108,843	(26,055)	1,134,898
For the year ended December 31, 2011	1,315,402	(567,550)	747,852	(37,201)	785,053
For the year ended December 31, 2012	610,433	490,059	1,100,492	12,280	1,088,212

Consolidated statements of stockholders' equity

	Note	NLMK stockholders					Non-controlling interest	Total stockholders' equity
		Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings		
Balance at December 31, 2009		221,173	10,267	112,450	(796,756)	9,171,068	(108,334)	8,609,868
Net income / (loss)		—	—	—	—	1,255,043	(31,065)	1,223,978
Cumulative translation adjustment	2(b)	—	—	—	(120,145)	—	5,010	(115,135)
Change in non-controlling interest		—	—	(13,698)	—	—	13,698	—
Dividends to shareholders	14(b)	—	—	—	—	(164,897)	—	(164,897)
Balance at December 31, 2010		221,173	10,267	98,752	(916,901)	10,261,214	(120,691)	9,553,814
Net income / (loss)		—	—	—	—	1,357,594	(42,192)	1,315,402
Cumulative translation adjustment	2(b)	—	—	—	(572,541)	—	4,991	(567,550)
Disposal of assets to the entity under common control	16	—	—	207,639	—	—	—	207,639
Change in non-controlling interest in deconsolidated subsidiaries		—	—	—	—	—	116,029	116,029
Dividends to shareholders	14(b)	—	—	—	—	(520,173)	—	(520,173)
Balance at December 31, 2011		221,173	10,267	306,391	(1,489,442)	11,098,635	(41,863)	10,105,161
Net income		—	—	—	—	595,805	14,628	610,433
Cumulative translation adjustment	2(b)	—	—	—	492,407	—	(2,348)	490,059
Change in non-controlling interest		—	—	—	—	—	(3,291)	(3,291)
Dividends to shareholders	14(b)	—	—	—	—	(112,072)	—	(112,072)
Balance at December 31, 2012		221,173	10,267	306,391	(997,035)	11,582,368	(32,874)	11,090,290

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

Financial statements: **Consolidated statements of cash flows**
For the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

	Note	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		610,433	1,315,402	1,223,978
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		767,715	588,707	469,418
Loss on disposals of property, plant and equipment		38,051	29,293	9,657
Losses / (gains) on investments, net		2,828	(11,922)	27,991
Interest expense		68,462	—	—
Equity in net (earnings) / losses of associates	5	(276)	(54,272)	107,338
Deferred income tax expense	17	20,933	45,643	33,790
(Gains) / losses on unrealized forward contracts		(8,522)	4,819	(4,225)
Impairment losses	9(a)	—	—	58,179
Other		14,293	24,967	99,735
Changes in operating assets and liabilities				
Decrease / (increase) in accounts receivable		166,715	130,417	(356,198)
Decrease / (increase) in inventories		169,858	(368,932)	(458,033)
Decrease in other current assets		31,628	13,495	5,517
(Decrease) / increase in accounts payable and other liabilities		(69,932)	97,616	213,979
Increase / (decrease) in current income tax payable		12,471	(10,118)	(29)
Net cash provided by operating activities		1,824,657	1,805,115	1,431,097
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases and construction of property, plant and equipment		(1,453,386)	(2,047,852)	(1,463,209)
Proceeds from sale of property, plant and equipment		28,692	26,980	26,362
Purchases of investments and placement of bank deposits		(144,724)	(523,661)	(832,472)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		283,044	717,539	450,255
Acquisitions of subsidiaries, net of cash acquired of \$112,806 in 2011 and \$22 in 2010	21	(156,510)	(41,751)	(28,363)
Net cash used in investing activities		(1,442,884)	(1,868,745)	(1,847,427)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		1,819,425	1,967,362	933,873
Repayment of borrowings and notes payable		(1,798,836)	(1,683,536)	(802,143)
Capital lease payments		(23,116)	(32,525)	(46,356)
Dividends to shareholders		(116,529)	(516,335)	(164,501)
Proceeds from disposal of assets to an entity under common control		—	313,246	—
Net cash (used in) / provided by financing activities		(119,056)	48,212	(79,127)
Net increase / (decrease) in cash and cash equivalents		262,717	(15,418)	(495,457)
Effect of exchange rate changes on cash and cash equivalents		(108,639)	64,608	(3,612)
Cash and cash equivalents at the beginning of the year	4	797,169	747,979	1,247,048
Cash and cash equivalents at the end of the year	4	951,247	797,169	747,979
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		271,224	374,523	358,419
Interest (excluding capitalized interest)		68,462	—	15,865
Non cash investing activities:				
Capital lease liabilities incurred	19	29,869	18,430	97,606
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of \$112,806 in 2011 and \$22 in 2010	21	—	464,511	28,363

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

Financial statements: **Notes to the consolidated financial statements**

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

1. Background

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

The Group is one of the leading global suppliers of slabs and transformer steel and one of the leading suppliers to the domestic market of high value added products including pre-painted, galvanized and electrical steel as well as a variety of long steel products. The Group also operates in the mining segment (Note 22).

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

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

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

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

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

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 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 \$490,059, \$(567,550) and \$(115,135) was recorded directly in stockholders' equity in the years ended December 31, 2012, 2011 and 2010, respectively.

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

	2012	2011	2010
For the 1 st quarter	30.2642	29.2698	29.8903
For the 2 nd quarter	31.0139	27.9857	30.2430
For the 3 rd quarter	32.0072	29.0461	30.6200
For the 4 th quarter	31.0767	31.2304	30.7117
As at December 31	30.3727	32.1961	30.4769

(c) Consolidation principles

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

3. Significant Accounting Policies

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

(a) Use of estimates

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

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

(b) Cash and cash equivalents

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

(c) Restricted cash

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

(d) Accounts receivable and loans issued

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

(e) Value added tax (VAT)

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

(f) Inventories

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

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

(g) Investments in marketable debt and equity securities

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

Trading securities

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

Held-to-maturity securities

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

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

Available-for-sale securities

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

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

(h) Investments in associates and non-marketable securities

Investments in associates

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

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

3. Significant Accounting Policies (continued)

Investments in non-marketable securities

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

(i) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses (Note 3(l)). The cost of self-constructed assets includes the cost of materials, direct 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 lives of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of and land. The range of the estimated useful lives is as follows:

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

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

(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

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

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

3. Significant Accounting Policies (continued)

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

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

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

(l) Impairment of long-lived assets

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

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

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

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

The Group maintains defined benefit pension and defined contribution plans that cover the majority of its employees in Europe. The plans cover statutory and voluntary obligations and include pensions, other post-retirement benefits, e.g. long-term severance benefits and some additional benefits (Note 12).

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

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

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

(n) Asset retirement obligations

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

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

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

(o) 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.

(p) Commitments and contingencies

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

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

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

3. Significant Accounting Policies (continued)

(q) Income tax

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

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

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

(r) Dividends

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

(s) 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.

(t) Shipping and handling

The Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with the delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. The portion of this expense in selling expenses in 2010-2012 varied from 84% to 89%.

(u) 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)).

(v) 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.

(w) Segment reporting

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

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

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

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

(x) 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.

3. Significant Accounting Policies (continued)

(y) Recent accounting pronouncements

In July 2012, the FASB approved ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. The amendments in ASU 2012-02 will allow an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. The amendments in this Update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Group believes the adoption of ASU 2012-02 will not have an impact on the Group's consolidated financial position and results of operations.

New pronouncements

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

4. Cash and Cash Equivalents

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Cash – Russian rubles	58,922	54,448	131,555
Cash – US dollars	98,438	45,820	117,343
Cash – other currencies	183,307	66,561	45,353
Deposits – Russian rubles	441,141	173,644	151,426
Deposits – US dollars	105,940	290,854	210,743
Deposits – Euros	46,464	165,806	91,147
Deposits – other currencies	3,720	—	3
Other cash equivalents	13,315	36	409
	951,247	797,169	747,979

5. Investments

Balance sheet classification of investments:

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Short-term investments and current portion of long-term investments			
Bank deposits	105,761	226,736	405,784
Other	1,145	543	16,859
	106,906	227,279	422,643
Long-term investments			
Loans to related parties (Note 24(b))	—	—	515,264
Investments in associates	8,146	7,786	170,192
Other	11,147	634	2,209
	19,293	8,420	687,665
Total investments	126,199	235,699	1,110,308

Investments in associates

	As at December 31, 2012 Ownership	As at December 31, 2011 Ownership	As at December 31, 2010 Ownership	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Steel Invest & Finance (Luxembourg) S.A. (Note 21)	100.00%	100.00%	50.00%	—	—	164,009
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	50.00%	8,146	7,786	6,183
				8,146	7,786	170,192

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, previously accounted for by the Group under the equity method in line with a strategic partnership with the Duferco Group who held 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.

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

5. Investments (continued)

Summarized financial information for SIF S.A. is as follows:

	As at December 31, 2010
Current assets	1,538,560
Non-current assets	1,239,440
Total assets	2,778,000
Current liabilities	(1,368,598)
Non-current liabilities	(1,528,189)
Total liabilities	(2,896,787)
Equity	(118,787)

The revenue and net loss of SIF S.A. for the year ended December 31, 2010 amounted to \$2,820,699 and \$(136,908), respectively. The Group's share in SIF S.A. losses amounted to \$(107,338) for the year ended December 31, 2010.

Information about the Group's operations with SIF S.A. and its subsidiary is disclosed in Note 24.

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group (Note 21).

6. Accounts Receivable and Advances Given

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Trade accounts receivable	827,826	944,250	728,153
Advances given to suppliers	105,717	154,622	201,745
VAT and other taxes receivable	562,944	511,118	416,833
Accounts receivable from employees	4,375	2,799	4,035
Other accounts receivable	152,607	87,710	148,964
	1,653,469	1,700,499	1,499,730
Allowance for doubtful debts	(162,518)	(127,858)	(240,134)
	1,490,951	1,572,641	1,259,596

As at December 31, 2012, 2011 and 2010 accounts receivable of \$264,389, \$297,902 and \$15,373, respectively, served as collateral for certain borrowings (Note 11).

7. Inventories

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Raw materials	1,201,527	1,215,944	870,160
Work in process	876,523	685,472	332,284
Finished goods and goods for resale	852,855	1,021,828	445,961
	2,930,905	2,923,244	1,648,405
Provision for obsolescence	(103,972)	(94,811)	(68,337)
	2,826,933	2,828,433	1,580,068

As at December 31, 2012, 2011 and 2010, inventories of \$672,504, \$641,654 and \$27,898, respectively, served as collateral for certain borrowings (Note 11).

8. Property, Plant and Equipment

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Land	270,882	201,852	154,225
Mineral rights	557,769	522,577	534,445
Buildings	1,937,315	1,748,813	1,532,788
Land and buildings improvements	1,384,364	1,280,211	1,322,321
Machinery and equipment	10,399,285	7,336,243	6,150,022
Vehicles	383,760	324,953	364,107
Construction in progress and advances for construction and acquisition of property, plant and equipment	3,268,252	4,630,558	3,519,758
Leased assets (Note 18)	145,328	125,897	372,405
Other	151,066	125,585	72,168
	18,498,021	16,296,689	14,022,239
Accumulated depreciation	(6,744,864)	(5,726,861)	(5,639,761)
	11,753,157	10,569,828	8,382,478

8. Property, Plant and Equipment (continued)

In March 2011, the Group acquired a license for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this license as at December 31, 2012 is \$31,167.

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, 2012 is \$36,106.

The other mineral rights relate to the 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, 2012 is \$208,805. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2012, 2011 and 2010, property, plant and equipment of \$203,838, \$541,928 and \$19,654 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are \$197,569, \$171,764 and \$173,402 for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012 the Group's management considered that the low level of economic activity in Europe combined with a significant deterioration in the steel market represented a trigger for impairment testing and has performed the tests for impairment of assets.

The Group's management has combined all the entities of the European Strip Division into one reporting unit. The cash flows were calculated from January 1, 2013 until 2018-2027 for different groups of assets and then terminal values for these assets were estimated. Prices for steel products were estimated on the basis of reports of independent analysts. In addition, the Group's management has assumed that negotiations with employee representatives and governmental authorities in respect of the proposed restructuring of the NLMK La Louviere plant are successful (Note 23(a)). As a result of these calculations no impairment was recorded. Total assets as at December 31, 2012 dependent on the results of these negotiations amounted to \$653,073.

9. Goodwill and Intangible Assets

(a) Goodwill

Balance as at December 31, 2009	556,636
Goodwill impairment	(58,179)
Cumulative translation adjustment	(3,803)
Balance as at December 31, 2010	494,654
Acquired in new subsidiaries	289,711
Cumulative translation adjustment	(24,199)
Balance as at December 31, 2011	760,166
Cumulative translation adjustment	25,975
Balance as at December 31, 2012	786,141

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2011 of a controlling interest in SIF S.A. (Note 21) amounted to \$289,711. This goodwill was assigned to the steel segment and foreign rolled products segment in the amount of \$128,441 and \$161,270, respectively.

As at December 31, 2012 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to \$459,605, \$6,100, \$123,441 and \$196,995, respectively.

Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2012 and 2010 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result as at December 31, 2012 the Group determined no impairment of the tested values. As at December 31, 2010 a partial impairment of the goodwill associated with the long products segment was recognized, and an estimated charge of \$58,179 in the "Impairment losses" line in the consolidated statement of income for the corresponding period was recorded. The Group's management believes that the global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill. Key estimates used in the impairment model are consistent with those used for assets impairment tests and disclosed in Note 8 above. The discount rates of 10-14% for different assets were used.

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

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

9. Goodwill and Intangible Assets (continued)

(b) Intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2012	Gross book value as at December 31, 2011	Gross book value as at December 31, 2010
Customer base	LLC VIZ-Stahl	125	106,846	100,794	106,480
Industrial intellectual property	LLC VIZ-Stahl	149	56,260	53,074	56,068
Customer base	Novexco, Novex	180	89,910	89,910	89,910
Beneficial lease interest	NLMK Indiana	974	8,700	8,700	8,700
Industrial intellectual property	SIF S.A.	60	3,226	2,503	–
Customers relationships	NLMK DanSteel A/S	72	–	4,080	4,310
Customers relationships (electricity)	NLMK Indiana	18	–	–	7,200
			264,942	259,061	272,668
Accumulated amortization			(123,020)	(100,450)	(91,532)
			141,922	158,611	181,136

The intangible assets were acquired in business combinations and met the criteria for separate recognition outlined in ASC No. 805. They were recorded under the provisions of ASC No. 805 at fair values at the date of acquisition, based on their appraised values. Aggregated amortization expense amounted to \$25,919, \$14,850 and \$16,268 for the years ended December 31, 2012, 2011 and 2010, respectively.

Estimated amortization expense in subsequent annual periods

2013	(24,111)
2014	(20,885)
2015	(20,885)
2016	(20,919)
2017 and later	(55,122)

10. Accounts Payable and Other Liabilities

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Trade accounts payable	758,044	818,729	466,988
Advances received	111,833	133,402	199,407
Taxes payable other than income tax	166,841	143,379	120,287
Accounts payable and accrued liabilities to employees	227,399	199,300	149,827
Dividends payable	1,521	2,061	2,102
Short-term capital lease liability (Note 18)	21,669	14,757	38,430
Other accounts payable	174,798	311,051	130,393
	1,462,105	1,622,679	1,107,434

Other accounts payable as at December 31, 2011 include short-term part of payables for SIF S.A. shares of \$145,631 (Notes 12 and 21).

11. Short-Term and Long-Term Borrowings

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Parent Company			
Bonds, RUR denominated, with interest rate from 7.75% to 10.75% per annum, mature 2013-2015	1,669,297	1,416,108	835,059
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2013-2019	677,306	757,788	582,192
Bonds, USD denominated, with interest rate 4.95% per annum, mature 2019	506,531	–	–
Loan, RUR denominated, with interest rate 8.5% per annum, mature 2013	329,702	310,958	–
Loans, US\$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2013	276,259	678,077	1,104,707
Companies of the Foreign rolled products segment			
Loans, EURO denominated, with interest rates from EURIBOR +0.5% to EURIBOR +3.5% and 4.34% per annum, mature 2013-2020	902,833	1,014,160	–
Loans, US\$ denominated, with interest rates from LIBOR +1.625% and PRIME +0.625% per annum, mature 2013-2016	108,408	51,347	28,819
Other borrowings	–	2	–
Other companies			
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +1.3% per annum, mature 2013-2020	104,990	107,119	23,585
Loans, RUR denominated, with interest rate 10% per annum, mature 2013 and 2017	36,643	30,771	29,019
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +5.5% per annum, mature 2013-2022	12,783	1,648	2,910
Other borrowings	6,971	11,820	18,131
	4,631,723	4,379,798	2,624,422
Less: short-term loans and current maturities of long-term loans	(1,816,169)	(1,306,263)	(525,559)
Long-term borrowings	2,815,554	3,073,535	2,098,863

The Group's long-term borrowings as at December 31, 2012 mature between 2 to 10 years.

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

2014	699,041
2015	1,035,460
2016	153,512
2017	175,779
Remainder	751,762
	2,815,554

New borrowings

The amount of loans and bonds, received by the Group under new loan agreements concluded in the year ended December 31, 2012, and outstanding as at December 31, 2012, is \$584,768.

Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with all debt covenants as of December 31, 2012.

12. Other Long-Term Liabilities

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Long-term capital lease liability (Note 18)	34,642	26,389	191,102
Employee benefit obligation	92,592	80,458	–
Other long-term liabilities	330,128	318,031	2,849
	457,362	424,878	193,951

Other long-term liabilities as at December 31, 2012 and 2011 include payables of \$282,697 and \$282,738, respectively, for SIF S.A. shares (Note 21). In 2012 the repayment terms of these payables were amended to postpone the third installment to 2014.

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

12. Other Long-Term Liabilities (continued)

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

13. Change in Non-Controlling Interests in Companies of Long Product Segment

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

14. Stockholders' Equity

(a) Stock

As at December 31, 2012, 2011 and 2010, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at December 31, 2012, 2011 and 2010, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$10,361,802, \$9,104,566 and \$8,990,627, converted into US dollars using exchange rates at December 31, 2012, 2011 and 2010, respectively.

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

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

In June 2011, the Parent Company declared dividends for the year ended December 31, 2010 of 1.82 Russian rubles per share for the total of \$378,687, including interim dividends for the six months ended June 30, 2010 of 0.62 Russian ruble per share for the total of \$122,218 (at the historical rate). Dividends payable amounted to \$2,061 at December 31, 2011 (Note 10).

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).

15. Earnings per share

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	595,805	1,357,594	1,255,043
Basic and diluted net earnings per share (US dollars)	0.0994	0.2265	0.2094

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

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2012, 2011 and 2010. The Parent Company does not have potentially dilutive shares outstanding.

16. Disposals of Assets

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

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

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

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

Sales revenue	243,685
Net income	31,346

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

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

17. Income Tax

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Current income tax expense	(283,779)	(375,391)	(357,182)
Deferred income tax expense: origination and reversal of temporary differences	(20,933)	(45,643)	(33,790)
Total income tax expense	(304,712)	(421,034)	(390,972)

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

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

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Income before income tax	914,869	1,682,164	1,722,288
Income tax at applicable tax rate	(182,974)	(336,433)	(344,458)
Change in income tax:			
– tax effect of non-deductible expenses	(40,299)	(23,235)	(19,600)
– effect of different tax rates	58,890	54,644	5,740
– unrecognized tax loss carry forward for current year	(132,468)	(112,629)	(32,797)
– other	(7,861)	(3,381)	143
Total income tax expense	(304,712)	(421,034)	(390,972)

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

17. 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, 2012	As at December 31, 2011	As at December 31, 2010
<i>Gross deferred tax assets</i>			
Accounts payable and other liabilities	180,579	70,420	75,044
Non-current liabilities	643	2,172	43,841
Accounts receivable	29,068	6,114	5,658
Net operating loss and credit carryforwards, including:	763,726	561,567	194,957
– related to subsidiaries located in Russia (expiring in 2013-2020)	82,147	74,878	57,995
– related to subsidiaries located in the USA (expiring in 2013-2029)	220,394	138,705	136,962
– related to subsidiaries located in Europe (expiring in 2013-2029)	1,734	1,308	–
– related to subsidiaries located in Europe (no expiration)	459,451	346,676	–
Less: valuation allowance	(525,680)	(250,724)	(54,078)
	448,336	389,549	265,422
<i>Gross deferred tax liabilities</i>			
Property, plant and equipment	(869,586)	(780,223)	(537,245)
Intangible assets	(11,995)	(14,847)	(23,501)
Inventories	(43,004)	(60,807)	(39,994)
Other	(5,416)	(14,559)	(7,550)
	(930,001)	(870,436)	(608,290)
Total deferred tax liability, net	(481,665)	(480,887)	(342,868)

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

As of December 31, 2012, 2011 and 2010 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

18. Capital Leases

	Capital leases
<i>Future minimum lease payments</i>	
2013	34,929
2014	20,471
2015	7,879
2016	4,988
2017	3,873
Remainder	1,934
Total minimum lease payments	74,074
Less: amount representing estimated executory costs (including taxes payable by the lessor)	(111)
Net lease payments	73,963
Less: amount representing interest	(4,135)
Present value of minimum lease payments	69,828
Short-term capital lease liability, including advances given	27,823
Less: advances given	(6,154)
Short-term capital lease liability (Note 10)	21,669
Long-term capital lease liability, including advances given	42,005
Less: advances given	(7,363)
Long-term capital lease liability (Note 12)	34,642

The average capital lease contracts term is 5 years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2012, 2011 and 2010 varied from 2.7% to 14.3%.

Capital lease charges of \$6,810, \$18,571 and \$36,773 were recorded for the years ended December 31, 2012, 2011 and 2010, respectively.

18. Capital Leases (continued)

At December 31, 2012, 2011 and 2010, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Machinery and equipment	115,677	99,262	96,408
Vehicles	29,651	26,635	275,997
	145,328	125,897	372,405
Accumulated depreciation	(29,146)	(30,388)	(69,661)
	116,182	95,509	302,744

19. Non-Cash Transactions

Approximately \$8,700, \$24,800 and \$102,500 of the Group's 2012, 2011 and 2010 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 2012, 2011 and 2010 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, 2012, 2011 and 2010, were \$29,869, \$18,430 and \$97,606, respectively.

20. 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, 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.

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

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

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

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

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

	As at December 31, 2012		As at December 31, 2011		As at December 31, 2010	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	34,551	1,196	—	—	100,240	4,105
Euro	31,912	468	—	—	—	—
	66,463	1,664	—	—	100,240	4,105

During 2012, 2011 and 2010 gains / (losses) from forward exchange contracts amounted to \$9,109, \$9,655 and \$4,225, respectively. These gains and losses were included in "Foreign currency exchange gain / (loss), net" line in consolidated statements of income.

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

20. Fair Value of Financial Instruments (continued)

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

	As at December 31, 2012		As at December 31, 2011		As at December 31, 2010	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	99,931	7,264	—	—	—	—
	99,931	7,264	—	—	—	—

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

21. Business Combinations

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group. This acquisition was aimed to enhance the Group's competitive strengths on the global market through the expansion of vertical integration of assets, optimization of a product portfolio and geographic diversification.

The purchase price was \$600 million. The first tranche of \$150 million was paid on June 30, 2011. The remaining tranches are payable in arrears in three equal annual installments. Management has assessed fair value of the purchase consideration for 50% acquired as a result of business combination as \$578 million.

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

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

The Group also recognized deferred tax assets on SIF S.A. losses carried forward as of approximately \$200 million as the result of this consolidation. Most of these losses are in jurisdictions where there is an indefinite carry-forward period. The management anticipates utilization of these losses starting from 2013 and believes these assets will be recovered in the future.

The following table summarizes the estimated 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 determined by an independent appraiser. Management has determined that resulting goodwill primarily reflects the control premium paid for the acquisition and future synergies from using SIF S.A. assets for marketing Group metal products in Europe and USA.

Cash and cash equivalents	112,806
Accounts receivable and advances given, net	685,842
Inventories, net	1,169,496
Other current assets	26,874
Intangible assets	11,597
Property, plant and equipment	1,735,259
Deferred tax assets	270,670
Other non-current assets	787
Total assets acquired	4,013,331
Accounts payable and other liabilities	(1,130,196)
Other current liabilities	(860,231)
Non-current liabilities	(1,065,347)
Deferred income tax liability	(380,240)
Total liabilities assumed	(3,436,014)
Net assets acquired	577,317
Purchase consideration	867,028
Goodwill	289,711

For the period from the date of acquisition to December 31, 2011 SIF S.A. has contributed \$1,503,903 and \$(285,512) to the Group revenue and net income, respectively. If the acquisition had occurred on January 1, 2011, the Group's revenue and profit for the year ended December 31, 2011 would have been \$13,014,855 and \$1,407,592, respectively. If the acquisition had occurred on January 1, 2010, the Group's revenue and profit for the year ended December 31, 2010 would have been \$10,393,874 and \$1,153,020, respectively.

22. Segment Information

Starting from July 2011 the Group changed the composition and the presentation of its reportable segments as a result of a change in the Group's structure (Note 21) and internal organization. Comparative financial information for 2010 has been adjusted to conform to the presentation of current period amounts.

22. Segment Information (continued)

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

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The investments in equity method investee and equity in net earnings / (losses) of associates are included in the 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, 2012 is as follows:

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

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

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

Financial statements: **Notes to the consolidated financial statements** (continued)

As at December 31, 2012, 2011 and 2010

and for the years ended December 31, 2012, 2011 and 2010 (*thousands of US dollars*)

22. Segment Information (continued)

Segmental information for the year ended December 31, 2010 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,703,172	700,251	864,786	81,364	1,175	8,350,748	–	8,350,748
Intersegment revenue	350,562	–	512,208	831,257	16	1,694,043	(1,694,043)	–
Depreciation and amortization	(306,409)	(31,579)	(74,299)	(57,059)	(72)	(469,418)	–	(469,418)
Gross profit	2,146,308	7,901	208,659	603,732	284	2,966,884	(18,790)	2,948,094
Operating income / (loss)	1,316,822	(30,972)	(27,811)	544,544	(914)	1,801,669	(7,079)	1,794,590
Interest income	286,672	63	3,240	82	1,310	291,367	(246,296)	45,071
Interest expense	(15,604)	(20,845)	(225,712)	–	–	(262,161)	246,296	(15,865)
Income tax	(307,360)	3,633	17,640	(107,479)	(407)	(393,973)	3,001	(390,972)
Income / (loss), net of income tax	1,466,372	(49,688)	(244,897)	428,173	1,571	1,601,531	(270,215)	1,331,316
Segment assets, including goodwill	12,814,485	652,647	2,276,364	1,195,472	43,092	16,982,060	(3,083,035)	13,899,025
Capital expenditures	(1,063,784)	(15,291)	(254,428)	(126,241)	(3,465)	(1,463,209)	–	(1,463,209)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area for the years ended December 31, 2012, 2011 and 2010, is as follows:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Russia	4,398,398	4,462,871	3,434,379
European Union	2,538,793	2,771,159	1,802,638
Middle East, including Turkey	902,346	1,238,150	1,162,157
North America	1,646,819	1,189,609	797,183
Asia and Oceania	1,364,965	997,546	698,167
Other regions	1,305,271	1,069,221	456,224
	12,156,592	11,728,556	8,350,748

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

23. 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 international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management considered impairment provisions by taking into account the economic situation and outlook at the end of the reporting period.

In the fourth quarter of 2012, the global economic situation continued to deteriorate and this had a negative impact on steel markets, including European markets, which has resulted in, among other things, a lower level of customer demand for steel products, lower utilization rates and a downturn in steel prices.

In the fourth quarter of 2012, the management of NLMK La Louviere, a rolling facility in Belgium within the Foreign rolled products segment, formulated and announced a restructuring plan in response to decreased customer demand and continued losses. The precise parameters of the plan and its impact on the future operations of NLMK La Louviere, including the restructuring expenses, are currently being negotiated with employee representatives and local government. The Group management expects to perform this restructuring during 2013.

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

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objective of the financial risk management function is to ensure that exposure to risks stays within approved limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational and legal risks.

(b) Market risk

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

23. Risks and Uncertainties (continued)

Interest rate risk

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

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

Foreign currency risk

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

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

The net foreign currency position as at December 31, 2012 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	204,378	227,206	6,285
Accounts receivable and advances given	292,227	323,246	27,183
Other current assets	481	21,567	6
Accounts payable and other liabilities	(198,320)	(471,532)	(35,795)
Short-term borrowings	(391,198)	(413,114)	–
Long-term borrowings	(500,000)	(1,284,920)	–
Other long-term liabilities	(291,180)	(131,540)	–

Commodity price risk

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

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

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

(c) Credit risk

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

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

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

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

(d) Liquidity risk

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

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

(e) Insurance

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

24. Related Party Transactions

Related parties relationships are determined with reference to ASC No. 850, Related Party Disclosures. Balances as at December 31, 2012, 2011 and 2010 and transactions for the years ended December 31, 2012, 2011 and 2010 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 \$726,627 and \$777,573 for the years ended December 31, 2011 and 2010, respectively. Sales to other related parties were \$11,320, \$12,807 and \$13,558 for the years ended December 31, 2012, 2011 and 2010, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled \$215,649 as at December 31, 2010. Accounts receivable from other related parties equaled \$39,930, \$45,978 and \$5,559 as at December 31, 2012, 2011 and 2010, respectively.

Purchases

Purchases from the subsidiary of an associate (SIF S.A.) were \$978 and \$1,825 for the years ended December 31, 2011 and 2010, respectively. Purchases from companies under common control, were \$532,697, \$422,615 and \$37,399 for the years ended December 31, 2012, 2011 and 2010, respectively.

Accounts payable to the subsidiary of an associate (SIF S.A.) were \$7,500 as at December 31, 2010. Accounts payable to the related parties were \$6,837, \$3,453 and \$72,072 as at December 31, 2012, 2011 and 2010, respectively.

(b) Financial transactions

The carrying amount of loans to an associate (SIF S.A.), including interest accrued, is \$515,264 as at December 31, 2010.

As at December 31, 2010, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to \$217,496. 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 \$77,079, \$56,395 and \$94,147 as at December 31, 2012, 2011 and 2010, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2012, 2011 and 2010 amounted to \$1,361, \$873 and \$1,463, respectively.

During the year ended December 31, 2010, a 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 June 2011, the Parent Company has completed disposal of 100% of its interest in NTK to an entity under common control for a cash consideration of \$325 million (as at the date of payment) (Note 16).

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

Total contributions to a non-governmental pension fund and charity fund amounted to \$13,151 \$6,589 and \$8,329 in 2012, 2011 and 2010, respectively. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

25. Commitments and Contingencies

(a) Anti-dumping investigations

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

(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 January 2010, the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group (Note 13) filed with the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (hereinafter, 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 a 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.

25. Commitments and Contingencies (continued)

In March 2011, the ICA Court partially (in the amount of about \$313 million, at the exchange rate as of December 31, 2012) satisfied the claims of Maxi-Group's non-controlling shareholder against the Parent Company. After this decision the non-controlling shareholder initiated court cases in certain European courts to enforce payment of this claim. In April 2011, the Group's management initiated proceedings to challenge the resolution of the ICA Court, sending an application to the Arbitration Court of Moscow (the court of the first instance). In June 2011, the Arbitration Court of Moscow cancelled the respective resolution of the ICA Court. In August 2011, the Federal Arbitration Court of the Moscow Circuit initiated proceedings regarding cassation appeal filed by the non-controlling shareholder of OJSC Maxi-Group on revocation of the ICA Court decision. In September 2011, the Federal Arbitration Court of Moscow region adjudicated not to change the June decision of the Arbitration Court of Moscow. In November 2011, the Supreme Commercial Court of the Russian Federation registered a claim from the non-controlling shareholder of OJSC Maxi-Group for a supervisory review of the judicial acts of the corresponding courts. In January 2012, the Board of the Supreme Commercial Court adjudicated to refuse a supervisory review. No further appeal is possible in this claim.

In December 2012, the Parent Company received a new claim from the non-controlling shareholder of OJSC Maxi-Group about loss of assets in connection with a share-purchase agreement. The Group's management considers the probability of unfavorable outcome in connection with this claim is low and accordingly, no accruals in relation to this claim were made in these consolidated financial statements.

(c) Environmental matters

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

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$712,527, \$1,396,561 and \$1,973,043 as at December 31, 2012, 2011 and 2010, respectively.

(e) Social commitments

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

(f) Tax contingencies

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

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

As at December 31, 2012, 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.

(g) Financial guarantees issued

As at December 31, 2010, the Group has issued guarantees amounting to \$218,553, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 24(b)). The Group did not have financial guarantees issued as at December 31, 2012 and 2011. 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.

26. Subsequent Events

In February 2013 the Parent Company issued eurobonds with a nominal value of \$1,000 dollars per each bond (total value of \$800 million), with a maturity period of 5 years and a coupon rate of 4.45% per annum.

The Group's management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from January 1, 2013 to March 25, 2013, which is the date when these consolidated financial statements were available to be issued.

Section VI: Appendices

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We are Diversified

The diversification of the Group's product portfolio and its sales markets, which are based upon an integrated production model, enables us to react flexibly to changes in the markets and to weather industry cycles.

- The Group's steel production technologies have become optimally balanced: around 80% of all steel is produced using the Basic Oxygen Furnace (BOF) method at Novolipetsk with about 20% by the Electric Arc Furnace (EAF) method at the Group's NLMK Russia Long, NLMK USA, and NLMK Europe Plate divisions.
- NLMK is a leading supplier of high value added products. We are continuing to grow and to expand our portfolio of HVA products, both through organic expansion and through the modernization of our rolling assets.
- We supply products into markets in more than 70 countries around the world and this allows us to redirect supplies in reaction to changes in market conditions.

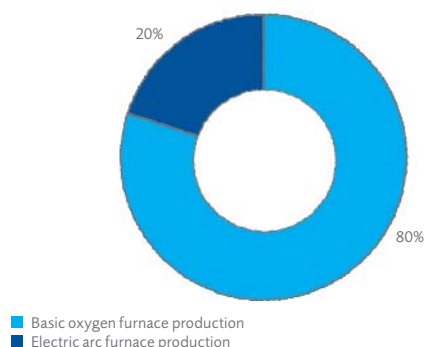


For more information on our products

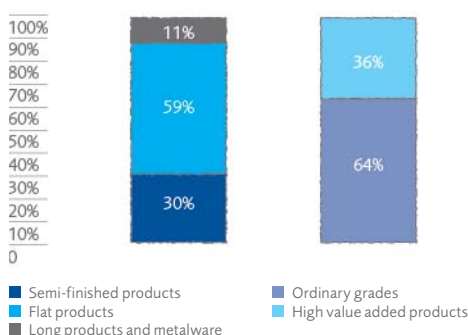


For more information on the Group's subsidiaries and affiliates

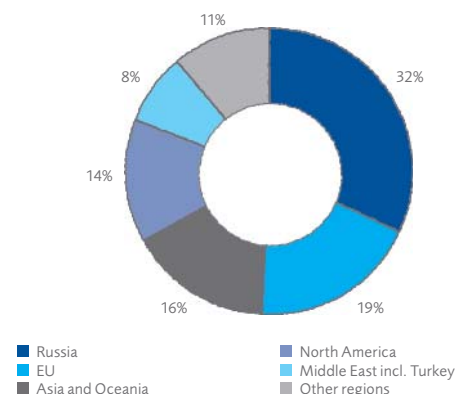
Balanced steel production routes



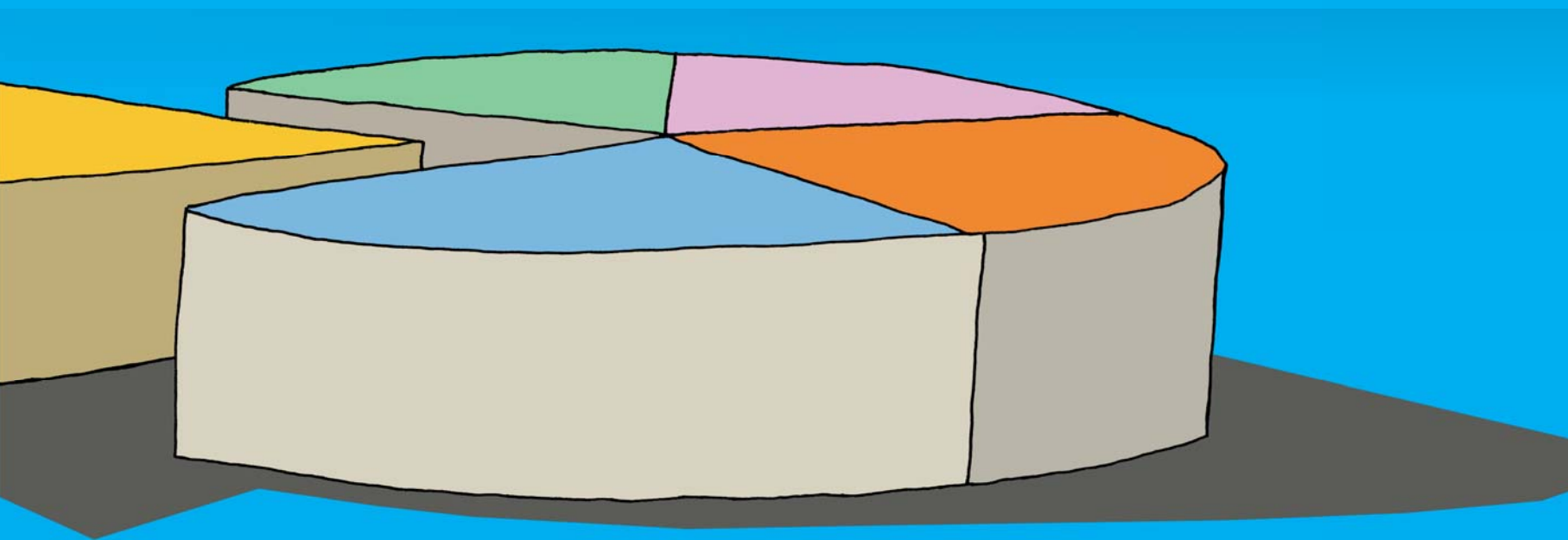
Diversified product mix



Diversified sales geography



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Appendices: **NLMK subsidiaries and affiliates**

As of 31 December 2012

No.	Company name	Location	Activity	Share of OJSC Novolipetsk in Charter Capital (%)
Subsidiaries				
1	Novolipetsky Metallurg Resort, a subsidiary of Novolipetsk	25 Chekhova Lane, Morskoye Village, Sudak, Crimea Autonomous Republic, 334886, Ukraine	Rest and recreation services, health and rehabilitation facility.	100
2	VIZ-Steel, Limited Liability Company	28 Kirova St., Yekaterinburg, 620219, Russia	Production and marketing of electrical steel.	100
3	Vtormetsnab NLMK, Limited Liability Company	3 Novinskaya St., Yekaterinburg, 620024, Russia	Collection, processing and sales of ferrous scrap.	100
4	Vtorchermet NLMK, Limited Liability Company	3 Novinskaya St., Yekaterinburg, 620024, Russia	Collection, processing and sales of ferrous and non-ferrous scrap.	100
5	Zhernovsky-1 Mining and Processing Complex, Limited Liability Company	11A Pavlovskogo St., Novokuznetsk, Kemerovo region, 65007, Russia Offices 501-512	Entire range of works related to coal mining and processing.	100
6	Usinsky-3 Mining and Processing Complex, Limited Liability Company	30 Kommunisticheskaya St., Syktyvkar, Komi Republic, Russia	Entire range of works related to coal mining and processing.	100
7	Hotel Metallurg, Limited Liability Company	36 Lenina St., Lipetsk, 398020, Russia	Hotel services.	100
8	Kleaningovaya Kompaniya (Cleaning Company), Limited Liability Company	8 Ferrosplavnaya St., Lipetsk, Russia	Cleaning and janitorial services for production premises, housing, equipment and vehicles.	100
9	SHANS Lipetsk Insurance Company, Limited Liability Company	30 Nedelina St., Lipetsk, 398059, Russia	Insurance.	100
10	NLMK Information Technologies, Limited Liability Company	2 Metallurgov Sq., Lipetsk, 398040 Russia	IT, computing and telecom services.	100
11	NLMK Kaluga, Limited Liability Company	20 Lyskina St., Vorsino Village, Borovsky Rayon, Kaluga Region, 249020, Russia	Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel.	100
12	NLMK-Sort (NLMK Long Products), Limited Liability Company	3 Novinskaya St., Yekaterinburg, 620024, Russia	Managing company, trading and procurement activities.	100
13	NLMK-Uchetniy Tsentr (Accounting Centre), Limited Liability Company	2 Metallurgov Sq., Lipetsk, 398040 Russia	Book-keeping and tax accounting services for NLMK Group businesses.	100
14	NLMK Overseas Holdings, Limited Liability Company	2 Metallurgov Sq., Lipetsk, 398040 Russia	Develops the growth strategy for NLMK Group companies, supports relations between the Group's Russian and international businesses.	100
15	Novolipetskaya Metallobaza, Limited Liability Company	8 Almaznaya St., Lipetsk, Russia	Manufacturing of plastic and steel products.	100
16	Novolipetsky Pechatny Dom (Printing House), Limited Liability Company	2 Metallurgov Sq., Lipetsk, 398040 Russia	Printing services.	100
17	NLMK Construction and Assembly Trust, Limited Liability Company	2 Fanernaya St., Lipetsk, 398017, Russia	Contracting of industrial, housing, utilities, cultural services and road construction works. Construction of health facilities, household natural gas supply lines.	100
18	NLMK Trade House, Limited Liability Company	52 Kosmodamianskaya Emb, Bldg 4, Moscow, 115054, Russia	Consolidated purchases of raw materials and inputs, sale of NLMK Group by-products.	100
19	Uralskiy Zavod Pretsizionnyh Splavov (Ural Plant of Precision Alloys), Limited Liability Company	5 Koltsevaya St., Berezovsky, Sverdlovsk region, 623704, Russia	Production of pig iron, ferrous alloys, steel, hot and cold-rolled flat steel.	100
20	Ussuriyskaya Metallobaza, Limited Liability Company	8 Kommunalnaya St., Ussuriysk, Primorskiy Kray, 692519, Russia	Acquisition, processing, storage and domestic sale of ferrous and non-ferrous metals.	100
21	Altai-Koks, Open Joint-Stock Company	2 Pritayezhnaya St., Zarinsk, Altayskiy Kray, 659107, Russia	Production and marketing of coke and by-products, generation and marketing of heat and electric power.	100

No.	Company name	Location	Activity	Share of OJSC Novolipetsk in Charter Capital (%)
22	Dolomit, Open Joint-Stock Company	1 Sverdlova St., Dankov, Lipetsk Region, Russia	Mining and processing of dolomite.	100
23	Stoilensky Mining and Processing Plant, Open Joint-Stock Company	Fabrichnaya Site, South-Western Industrial District, Passage 4, Sary Oskol, Belgorod region, Russia	Mining and processing of iron ore and other minerals.	100
24	Studenovskaya Joint Stock Mining Company, Open Joint-Stock Company	4 Gaydara St., Lipetsk, 398008, Russia	Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roadwork.	100
25	Uralvtorchermet, Closely-held Joint-Stock Company	3 Novinskaya St., Room 501, Yekaterinburg, Sverdlovsk Region, 620024, Russia	Consulting services re commercial activities, management, investing in securities, leasing of assets.	100
26	Lipetsky Giprometz, Limited Liability Company	1 Kalinina St., Lipetsk, 398059, Russia	Design and survey operations.	57,57
27	Nizhneserginsky MetiznoMetallurgicheskiy Zavod (NSMMZ), Open Joint-Stock Company	3 Karla Libknekhta St., Revda, 623280, Russia	Production of long steel stock, hot-rolled and forged flat steel.	57
28	North Oil and Gas Company, Open Joint-Stock Company	8 Barrikadnaya Str., Bldg 5A, Moscow, 123242, Russia	Prospecting and exploration of oil and gas fields.	51
29	Maxi-Group, Open Joint-Stock Company	18 3rd Yamskogo Polyta St., Floor 7, Moscow, 125040, Russia	Consulting services, corporate financial management.	50,00005
Affiliated companies				
30	Neptune, Limited Liability Company	Office 35, 1C Adm. Makarova St., Lipetsk, 398005 Russia	Wellness services.	25

Appendices: **NLMK** key products with descriptions

NLMK Group's diversified product mix includes pig iron, slabs, hot-rolled, cold-rolled, pre-painted and electrical steel, as well as long products. Alongside steel products, the Company also sells raw materials – iron ore and coke.

Item	Target industries	Examples of use	Producer
Steel products			
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
Hot-rolled steel	Construction, machine building, infrastructure development, shipbuilding	Steel structures, guardrails, ship hulls, machine casings, road-building machinery components, pressure vessels, building structures	Novolipetsk, NLMK USA, NLMK Europe Strip
Hot-rolled plates	Shipbuilding, wind power generation, pipes and tubes, construction, machine building	Pipes and tubes, pressurised vessels, ship hulls, bedplates for wind power generation installations, building of bridges, pumps	NLMK Europe Plate
Cold-rolled steel	Construction, machine building, automotive, pipes and tubes	Casing components for machinery and installations, frame elements, pipes and tubes, floodlight towers, agricultural machinery	Novolipetsk, NLMK USA, NLMK Europe Strip
Galvanised steel	Construction, automotive, infrastructure development	Casing components for machinery, roofing, frame elements for use in corrosive environments	Novolipetsk, NLMK Europe Strip, NLMK USA
Pre-painted steel	Construction, white goods	Roofing and finishing materials, casings for household and commercial goods	Novolipetsk, NLMK Europe Strip
Non grain oriented (dynamo) steel	Electrotechnical industry, machine building	Electric motor components	Novolipetsk
Grain oriented (transformer) steel	Electrotechnical industry	Transformer cores, stationary components of electric machines	Novolipetsk, VIZ-Steel
Billets	Steelmaking	Further processing into long products	NLMK Russia Long
Long steel (rebar, wire rod)	Construction	Reinforced concrete structures, components of gears and machines (axles, wheels), production of screens and grills	NLMK Russia Long, Kaluga Mini Mill (in the future)
Metalware	Construction, machine building	Wire, fittings, nails, screens	NLMK Russia Long
Raw materials			
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 the charge (fuel) used to make pig iron in blast furnaces	Sales to third parties by Altai-Koks; production at Altai-Koks and Novolipetsk

Method of production	Quality and certificates	Key markets, sales in 2012, 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, USA, EU Sales: 615,000 t Share of total Group sales: 4 %
BOF using pig iron and scrap	Complies with international quality standards. Slabs for shipbuilding 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 and USA (including to foreign assets), S.E. Asia, Middle East Sales: 3.962 mt (incl. 2.6 mt to captive foreign assets) Share of total Group sales: 26% Share of global market: 16%
Heated slabs are processed in hot-rolling mills	Complies with international quality standards. Hot-rolled steel is certified: – for shipbuilding by Lloyd's Register, – or 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, USA, S.E. Asia, Middle East Sales: 3.758 mt Share of total Group sales: 25% Share of Russian market: 10%
Heated slabs are processed in reversible rolling mills	Complies with international quality standards	Markets: EU, USA, S.E. Asia, Middle East Sales: 924,000 t Share of total Group sales: 6% Share of EU market: 6%
Hot-rolled re-rolling stock is pickled, processed in cold-rolling mills and heat treated	Complies with international quality standards	Markets: Russia, EU, S.E. Asia, Middle East, Africa Sales: 2.014 mt Share of total Group sales: 13% Share of Russian market: 24%
Cold-rolled and hot-rolled re-rolling stock is galvanised and heat treated	Complies with international quality standards	Markets: Russia, CIS, USA Sales: 1.127 mt Share of total Group sales: 7% Share of Russian market: 17%
Application of polymer coats to cold-rolled or galvanised re-rolling stock	TUV CERT certified for compliance with DIN EN 10169-1	Markets: Russia, EU, CIS Sales: 576,000 t Share of total Group sales: 4% Share of Russian market: 22%
Pickling of hot-rolled strip, cold-rolling, thermal treatment, and application of electric insulation coating	Complies with international quality standards	Markets: Russia, S.E. Asia, EU, Middle East Sales: 275,000 t Share of total Group sales: 2% Share of Russian market: 57%
Pickling of hot-rolled strip, 1st cold-rolling, decarburising 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, S.E. Asia, EU, Latin America, Middle East Sales: 227,000 Share of total Group sales: 1% Share of Russian market: 99 % Share of global market: 9%
EAF process using scrap	Complies with international quality standards	Markets: Russia, Middle East Sales: 0 t Share of total Group sales: 0%
Heated billets are re-rolled using bar-rolling mills	Complies with international quality standards	Markets: Russia, Middle East, EU Sales: 1.421 mt Share of total Group sales: 9% Share of Russian rebar market: 17%
Long products are processed using special machines (drawing mills, nail makers). Finished products are treated with chemicals and heat, galvanised and bonderised	Complies with international quality standards	Markets: Russia, EU, CIS Sales: 285,000 Share of total Group sales: 2% Share of Russian market: 22%
Ore mining and dressing (removal of spoil)	Iron content: 66.5% in concentrate and 52% in sinter ore	Markets: Russia, CIS, EU, China Sales: 15.835 mt (incl. inter-Group sales)
Coking coal is processed in coke oven batteries		Markets: Russia, CIS, Middle East Sales: 4.230 mt (incl. 3.378 mt at Novolipetsk)

Technology

Blast Furnace

A furnace is used for converting prepared iron ore into liquid iron (pig iron). It works on the counter flow principle: the charge, consisting of iron ore (including iron ore concentrate and pellets) and coke, is introduced from the top – usually via a rotary chute. The hot blast flows in the opposite direction. The blast is pre-heated in stoves and injected into the furnace through tuyeres. Coke is used as reduction agent. Depending on charge and method of operation, different types of pig iron can be produced. A blast furnace remains in operation for many years (furnace campaign). Blast furnace by-products are blast furnace gas and blast furnace slag.

Basic Oxygen Furnace (BOF)/Converter

In the basic oxygen furnace, molten iron is made into steel. Oxygen is injected to drive out carbon and other impurities dissolved in the melt. This process generates a lot of heat, so scrap is added to keep the melt at around 1700°C. The resulting crude steel is then further purified, alloyed in subsequent secondary metallurgy processes, or brought directly to the casting process.

Ladle Furnace

The facility used to maintain and adjust the temperature of liquid steel during processing after tapping from the BOF (or EAF). This also allows the molten steel to be kept ready for use in the event of a delay later in the steelmaking process.

Vacuum Degasser

A process unit for vacuum degassing. Vacuum degassing involves exposing the liquid steel to vacuum to improve its properties by reducing the content of gases (hydrogen and oxygen) and the amount of non-metallic inclusions.

Continuous Casting

This is the process of continuously producing billets or slabs from liquid steel that is poured from a ladle into a tundish and a cast.

Electric Arc Furnace (EAF)

A method of producing steel through the melting of recycled steel and other sources of iron (pig iron, pellets, etc.) using electricity as a key energy source.

Hot-Rolling

The process of plastically deforming a hot slab into coil of specified thickness by passing it between rolls at a relatively high temperature.

Cold-Rolling

Changes in the structure and shape of steel achieved through rolling the steel at a low temperature (often room temperature). It is used to create a permanent increase in the hardness and strength of the steel. It is affected by the application of forces to the steel, which cause changes in the composition, enhancing certain properties. In order for these improvements to be sustained, the temperature must be below a certain range because the structural changes in the steel are eliminated at higher temperatures.

Continuous Rolling

In a Continuous Rolling Mill, rolling is performed simultaneously in several consecutive mill stands. The number of stands corresponds to the required amount of roll passes.

Reversing Mill

A Mill stand that forms material as it reciprocates between adjustable rolls. Consists of one or two stands, at least one of which carries out several reversing passes.

Pickling

Removing surface oxides from metals by a chemical reaction.

Hot Dip Galvanising

A process whereby steel is dipped into molten zinc or zinc alloy. The process can be performed continuously (by running steel strip through the molten metal) or in batches (by dipping complete products such as automobile bodies or gates into a metal bath).

Pre-painting Line

The method for applying organic coating involves the chemical treatment of the strip, followed by passing the strip through rolls to apply the paint and the subsequent thermal treatment of the strip to polymerise the paint. The goal is to apply the coating evenly in a short process, to obtain a uniform surface and the required coating thickness.

Z-mill (Sendzimir)

A cluster type cold-rolling Sendzimir mill operated by NLMK Pennsylvania.

Processing to finished coil is usually more complicated than low carbon product. It involves more than one cold reduction and heat treatment process (annealing) to reduce the coil to final thickness. The Low carbon process is usually Hot Roll – Pickle – Cold Reduce – Anneal – Temper, whereas the High carbon process is often Hot Roll – Pickle – Cold Reduce – Anneal – Cold Reduce – Anneal – Temper. The product is primarily high carbon steel (grades 1045 through 1095) and alloy steel (grades 4130 and 4140). The end use of these grades is heavily automotive-related for springs, clips, small motor parts and brackets. Some product also is used in appliances, aircraft brakes, golf clubs, blades, tools, saws and construction products.

Quenched & Tempered Steel

Quenching & Tempering Lines are used for the thermal treatment of thick plates.

Quenching is a heat treatment process involving heating steel to above the crystal structure transformation temperature, followed by rapid cooling. This improves the hardness of steel, but increases brittleness and makes it less ductile.

Tempering is used after quenching to reduce brittleness and improve ductility and involves reheating the steel and then allowing it to cool slowly. As a result, ductility is improved, brittleness is reduced and the required hardness is achieved. Such steels are used to manufacture low-wear mechanism components (i.e. excavator buckets, etc.).

Quarto Mill

A four-high mill with rolls positioned in one vertical plane, two of which are interior and smaller in diameter (work rolls), and two are exterior and bigger in diameter (back-up rolls).

Quard®

Quard® is the trademark of NLMK Clabecq for its abrasion-resistant steel plates (also called wear-resistant plates) produced through a quenching and tempering process. Quard® can be supplied in various hardness levels starting from 400HB.

Quend®

Quend® is the trade mark of NLMK Clabecq for its high yield strength steel plates that are produced through a quenching and tempering process. Quend® can be supplied in various yield strength levels starting from 700 N/mm².

Raw materials and semi-finished products

Coke

The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coking coal concentrate.

Iron Ore Concentrate

Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed by various treatment processes. Iron (Fe) content: 66.5%.

Pellets

An enriched form of iron ore shaped into small balls used in the steelmaking processes. Fe content: 65%.

Fluxes

Materials added to the charge to form slag and regulate its composition.

Limestone

Sedimentary rock composed largely of calcium carbonate in fine, medium and coarse fractions. Limestone is mainly used for sintering operations at the Lipetsk site, and sold to third parties for use in construction, including road building.

Dolomite

Magniferous sedimentary rock. This material is used mainly for steelmaking operations at the Lipetsk site, and sold to other steelmakers for use in sintering and steelmaking operations.

Scrap (Ferrous)

Ferrous (iron-containing) material that is generally remelted in electric arc furnaces. Steel mills also use scrap for up to 25% of their basic oxygen furnace charge. Scrap is waste steel, prepared for recycling.

Sinter

A product of sintering iron-bearing particles under high temperature into chunks to remove impurities and agglomerate small fractions of iron ores and concentrates.

Alloy

A material with metallic properties consisting of several chemical elements. Changing the composition and hence the microstructure of alloys enables the targeted engineering of desired material properties.

Crude Steel

Steel in its primary form of hot molten metal.

Slab

Rectangular block of steel, product of the casting process in the melt shop, used as a starting material in the rolling mills to produce hot strip.

Pig Iron

An alloy of iron and carbon that is produced in a blast furnace.

Billet

A semi-finished steel form that is used for long steel products such as bars, channels, wire rod or other structural shapes.

Finance and corporate responsibility

Corporate Responsibility (CR)

A form of corporate self-regulation integrated into a business model. Ideally, a CR policy would function as a built-in, self-regulating mechanism whereby a business would monitor and ensure its adherence to law, ethical standards, and international norms.

High Value Added Products (HVA)

Downstream product with the additional value of a commodity over the cost of the commodities used to produce it from the previous stage of production. For the purposes of this report, this definition applies to such products as thick plates, cold-rolled and further processed steels.

Global Depositary Receipts (GDR)

A bank certificate issued in more than one country for shares in a foreign. The shares are held by a foreign branch of an international bank. The shares are traded as domestic shares, but are also offered for sale globally through the various bank branches.

NLMK's GDR programme was launched in December 2005. GDR's are traded at the LSE, with 1 GRD = 10 ordinary shares.

Vertical Integration

When a business controls all stages of production, from raw materials to final delivery. The advantages of vertical integration include the ability to secure supplies and future orders.

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