



Achieving  
our goals

**Severstal** 

Annual Report 2013



# Our goal remains the same – it's to be a leader in value creation

## Achieving our goals

Strategic Priorities:  
Increased Focus on FCF Generation



See page 18

The Business System of Severstal:  
Delivering Benefits



See page 10

Cost reduction initiatives



See page 22

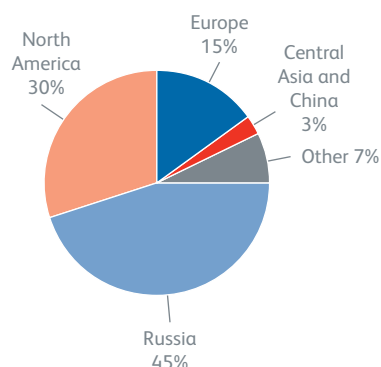
Proactive deleveraging: Lowering the gross debt  
by almost US\$1 billion in 2013



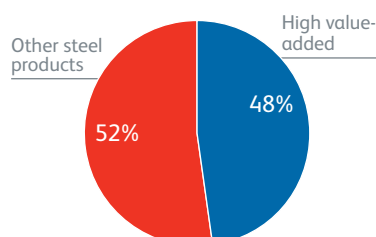
See page 39

## Performance highlights

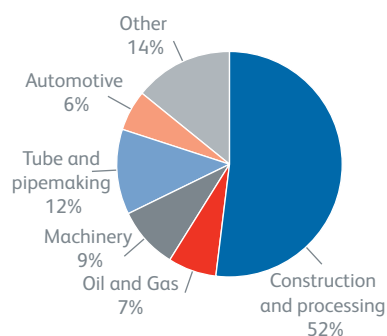
Highly diversified sales  
geography (Severstal Group  
FY 2013 revenue breakdown  
by region)



The highest share of  
high value-added  
steel in Russia (in total steel  
shipments of Severstal  
Russian Steel, 2013)



Highly diversified client base  
(Severstal Russian Steel's  
revenue by industry, 2013)



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at: [www.reports.severstal.com](http://www.reports.severstal.com)





# Company overview



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OO Severstal (“Severstal”, “the Company”, or “the Group”) is a vertically integrated steel and steel-related mining company with major assets in Russia and the USA, as well as investments in other locations. Operations began in 1955 at Cherepovets Steel Mill in Russia. Since becoming a private company in 1993, Severstal has been growing and expanding internationally. The company is listed on the Moscow Exchange (MICEX) and its GDRs are traded on the London Stock Exchange (LSE). Severstal’s strategic aim is building a healthy and high-quality business that would generate higher than market average earnings through the cycle. Severstal comprises three business divisions: Severstal Resources, Severstal Russian Steel and Severstal International.

## Severstal Resources

Severstal Resources manages all of Severstal’s mining assets, and forms the basis of Severstal’s vertically integrated business model. It satisfies almost all the iron ore and hard coking coal requirements of Severstal Russian Steel and, some of the requirements of Severstal’s International steel operations, while also selling increasing volumes to external customers. The coal businesses are among Russia’s top five coking coal producers, while the iron ore businesses are leaders by extraction volume in their respective markets.

## Severstal Russian Steel

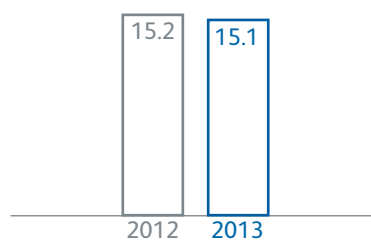
Severstal Russian Steel is a leading Russian steel producer, offering a broad product mix, with a high proportion of high value-added flat steel products, and increased production of long products for construction and downstream sales. Its flagship Cherepovets steel mill is one of the lowest-cost steel mills in the world, and is conveniently located for access from the company’s mining operations, and to the Baltic ports and Russia’s industrial heartland.

## Severstal International

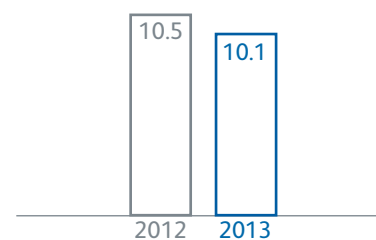
Severstal International is a modern steel producer with two of the most advanced facilities in North America, in Dearborn and Columbus. Modern facilities allow capital expenditure and maintenance levels to remain low, and production can focus on high value-added products. The division has long-standing, solid relationships with leading customers in the automotive, construction, pipe and tube, and other sectors, and is well-positioned in these markets.



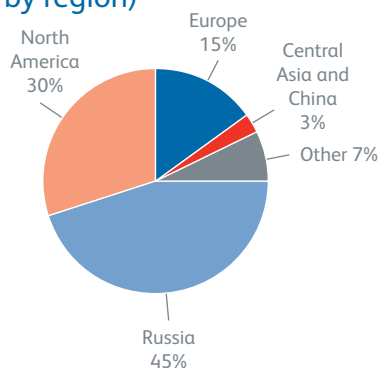
Iron ore sales volumes at Severstal Resources (mln tonnes)



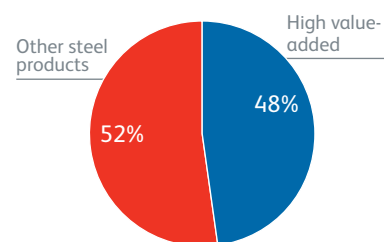
Coal sales volumes at Severstal Resources (mln tonnes)



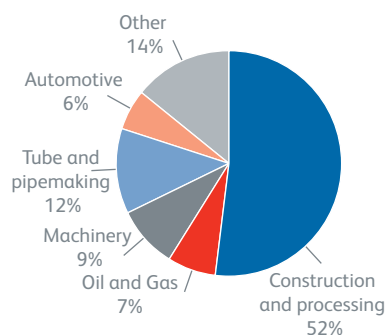
Highly diversified sales geography (Severstal Group FY 2013 revenue breakdown by region)



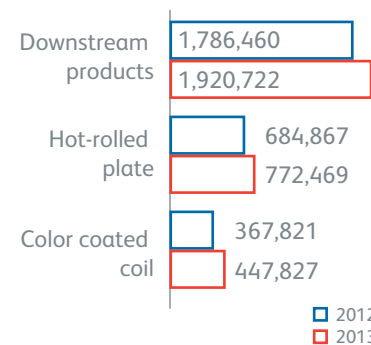
The highest share of high value-added steel in Russia (in total steel shipments of Severstal Russian Steel in 2013)



Highly diversified client base (Severstal Russian Steel's revenue by industry in 2013)



The fastest growing segments of the HVA portfolio (in tonnes in total steel shipments of Severstal Russian Steel in 2013)





Our primary strategic objective is to build a sustainable and high-quality business to generate higher than industry average earnings throughout the industry cycle. Severstal's fundamental strengths to help achieve this include:

### **A resilient business model combining low-cost steel production and self-sufficiency in raw materials**

Russia is one of the world's lowest cost regions for steel production. Severstal also enjoys a unique position in the steel industry thanks to almost full self-sufficiency in iron ore and more than self-sufficiency in coking coal. Our mining assets are located close to the Company's steel operations, and through producing a surplus of iron ore pellets and coking coal, Severstal is able to sell large volumes of mining products to customers in Russia and internationally.

### **Strong presence in the Russian markets with the flexibility for export sales**

The domestic market in Russia remains Severstal's priority, with a special focus on the North-Western and Central regions of the country. In these regions we benefit from the highest levels of steel consumption in the country as well as enjoying a logistical advantage not available to our competitors thanks to the location and quality of our assets. Our focused approach to our target markets has enabled Severstal to increase its market share in Russia in 2013.

Severstal's operations enjoy a more favourable geographic position for serving export markets than the majority of its Russian competitors. This makes export sales more attractive and viable for Severstal as the difference between the cost of selling domestically and internationally is reduced. This provides Severstal with a more flexible sales structure and therefore allows the Company to generate higher than industry average earnings.

With two steel units in the USA (Severstal North America), Severstal has a diversified end-market customer base with strong and established positions in the automotive, construction and pipe and tube industry segments. 2014 marks the ten year anniversary of Severstal's presence in the US market.



### Growing our share in high margin segments

We have a clear value-over-volume strategy. Severstal has a leading position amongst its Russian steelmaking peers in terms of share of high value-added (HVA), higher margin products in its sales portfolio, at around 50 per cent. Driving further growth in the high-margin segment requires continuous improvement to our product quality and the development of a wide range of premium services. Consequently, we have a constant dialogue with our customers in order to develop our offering to meet their evolving requirements. For example, at the beginning of 2014 in partnership with Mitsui, Severstal launched a steel service centre in Vsevolozhsk to supply local automotive producers, making us more flexible and able to meet their needs and enabling us to build on the position we have developed in recent years as an established and reliable supplier to the automotive industry. We also continue to innovate and develop new products to improve our customer offer, such as our range of products under the Steel Silk brand (used in roofing for buildings) which helps us to further differentiate ourselves from our competitors.



### Unlocking the value of self-help initiatives

Severstal's Business System is a company-wide set of projects aimed at delivering operational improvements. The Business System projects deliver operational, organisational and cultural changes. In 2013, these initiatives further enhanced our efficiency and reduced our costs, including through the optimisation of the Group's management structure. Our attention to detail and philosophy of "leaving no stone unturned" to drive efficiency enabled us to generate the highest EBITDA margin in the Russian steel sector in Q3 2013 at 17 per cent. Whilst we have made impressive progress to date, we have further progress to make and plans in place to maintain our position as an efficiency leader.





The Business System's main target is to help maintain Severstal's leading position and to build competitive advantage through developing and embedding a culture focused on our customers and on continuous improvement. The Business System is a key part of each of our divisions' strategies to deliver their goals and guarantee long-term, sustainable development.

A key focus area of the Business System is removing bottlenecks at all levels of the organisation – from production to back office. We have cultivated a culture of continuous improvement and reward people who develop ideas that will improve our operations. As a business, we employ global best practice tools and methods such as Lean Production and CRM.

As a result of our Business System initiatives, we are already seeing an increased level of engagement from our employees and higher

satisfaction levels from our clients, a trend that we are confident will continue.

In 2013, the total financial uplift from the Group's Business System projects in 2013 reached US\$389.8 million. Within this, the largest contribution was from the Severstal Russian Steel division, as in 2012, which created uplift of US\$290.4 million.

We are now moving on to the next stage of the Business System's roll out. Following several years of intense investment we are now entering what we call a "harvesting stage", where we will see the benefits of the investment and hard work we have put in to date. Now our priority is to ensure that the results we are seeing are sustainable.

### **April 2010-July 2013 "INVESTMENT STAGE"**

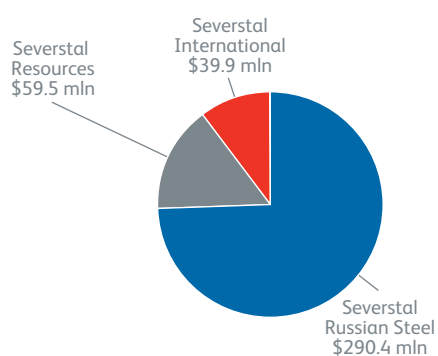
- Pilot projects at the key sites
- Extensive training at all levels
- Lean tools
- Customer Care
- Leadership skills

### **Since August 2013 "HARVESTING STAGE"**

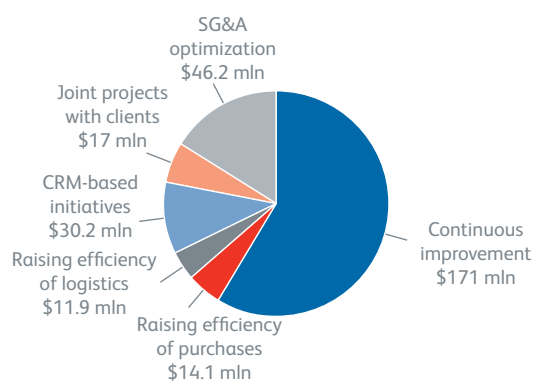
- Rising tangible contribution to the top-line and cost reduction
- Growing engagement from all levels
- The priority is to ensure that our strong performance is sustainable



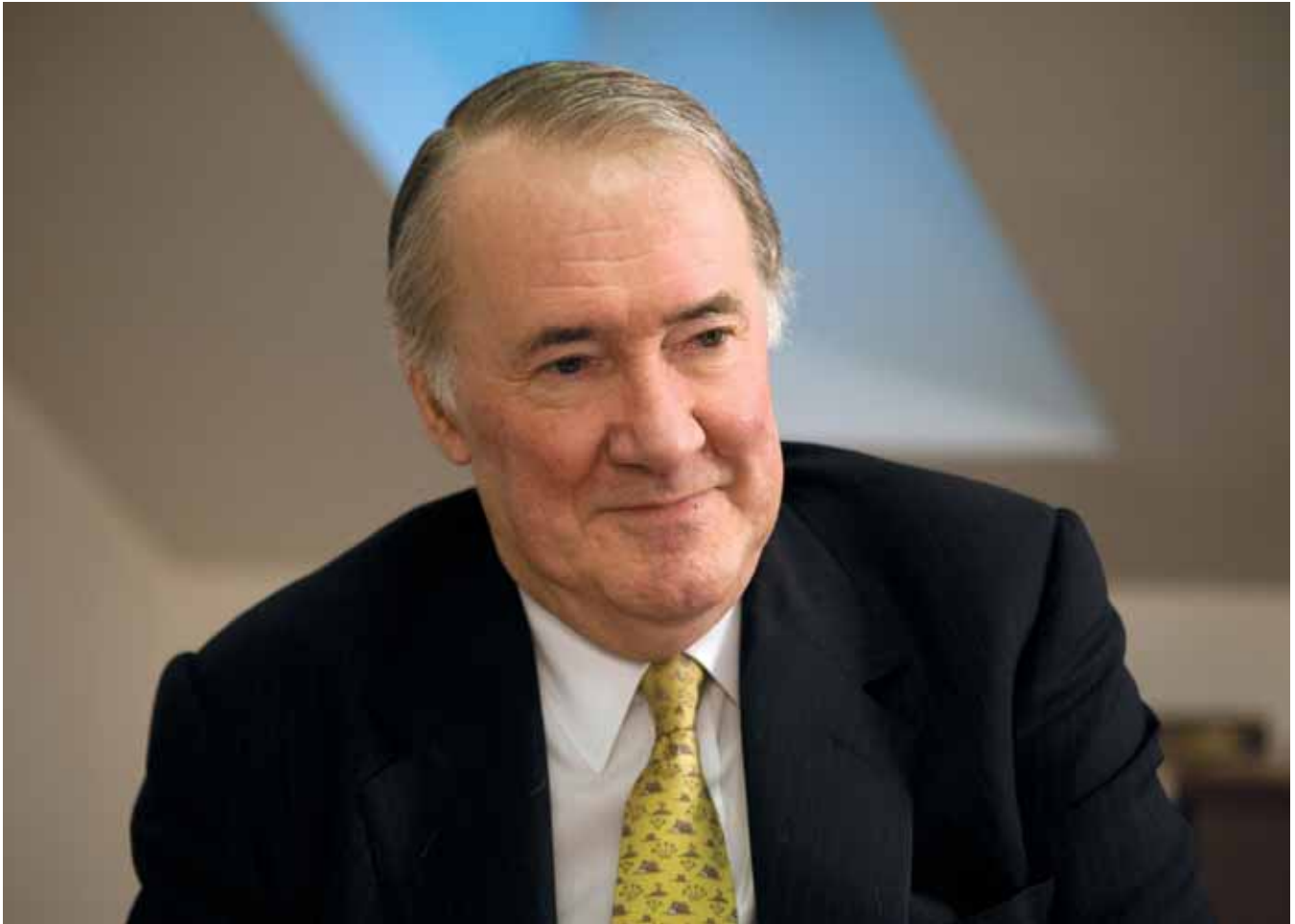
### The Divisions' contribution into the efficiency uplift within the Business System projects



### Key Business System's projects and their contribution into Severstal Russian Steel financial uplift in 2013







Since listing we have been committed to the highest standards of corporate Governance and aim for full compliance with the UK Corporate Governance Code. This includes having a proper balance between Executive and Non-Executive/Independent Directors. The Board has three committees, each Chaired by an Independent Director, providing oversight of key areas. These are Audit, Health & Safety and Nomination & Remuneration. In 2013 we held our third annual Capital Market Day for buy and sell side audiences in London. This is a further demonstration of the priority we give to regular and transparent communications with our stakeholders.

Dear Shareholders,

I am pleased to report that Severstal made significant progress in 2013, particularly in increasing efficiency by lowering costs. We also achieved higher exposure to more attractive market segments. As a result we were able to deliver a resilient performance which maintained operating margins and led to reduced debt despite challenging market conditions.

Health & safety is a top priority; the objective is to eliminate all fatal accidents. We aim to achieve this by continuing to employ international best practice to be the leading Russian company in this field. Over 2013 the annual lost-time injury frequency rate ("LTIFR") was almost unchanged at 1.45 compared to 1.41 in 2012. We also made progress with our environmental programmes further reducing energy consumption and emissions across many of our key operating units.

Our capital expenditure programme continued to be prudent and focussed on enhancing operational efficiency, further improving product mix, embedding customer care projects and health and safety. Major projects included the virtual completion of the Bala-kovo mini-mill, the revamping of our cold rolling mill at Cherepovets, the completion of our St. Petersburg service center, the modernization and expansion of the Pechorskaya Plant at Vorkuta and construction of an inclined shaft at Vorgashorskaya.

Our Business System initiatives launched in 2010 are now embedded across the Group. These are delivering significant benefits and competitive advantage through the creation of a continuous improvement culture that is delivering measurable contributions to revenue and cost reduction.

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& Safety and Nomination & Remuneration. In 2013 we held our third annual Capital Market Day for buy and sell side audiences in London. This is a further demonstration of the priority we give to regular and transparent communications with our stakeholders.

In July we announced changes to management and our organisational structure in line with the Company's focus on further improving efficiency and reducing costs. Vadim Larin, formerly CEO of Severstal Resources, was appointed Chief Operating Officer and Deputy Chief Executive. Alexander Grubman and Sergei Kuznetsov both stepped down from the Board. I would like to thank both for their significant contributions to the Group.

Global economic conditions did improve during the second half of 2013 with Europe experiencing a period of relative stability while the United States economy accelerated. This was balanced by more subdued growth in Russia. Overall we remain cautious about the outlook for 2014. However, we believe that global steel demand will continue to grow driven by an anticipated bottoming-out of European demand, further improvements to the US economy and continuing investment in China. This should lead to higher industry utilization rates although supply growth for both iron ore and coking coal may result in slightly lower commodity prices.

Our objective remains the continued development of the business to maximise free cash flow and deliver stable dividends. This will be done by driving efficiency and re-enforcing our low-cost position, highly selective development projects and delivering higher customer care and better product mix. With well invested operations and an integrated model, we are confident that Severstal will continue to make good progress in 2014.

**Christopher Clark**

Non-Executive Chairman of the Board of Directors







Our strategic goal remains the same: we aim to be a leader in value creation. In the current volatile and challenging market environment, this means the ability to generate solid positive free cash flow throughout the market cycle. We are building a healthy and high-quality business to generate above-industry-average earnings in all market conditions by increasing efficiency at our existing operations, controlling costs, and developing attractive market positions.

Dear Shareholders, Colleagues, Partners,

Severstal delivered another resilient performance in 2013 despite continued challenging conditions in the global steel and steel-related commodities markets. We were able to consistently improve our earnings performance throughout the year driven by our ongoing focus on enhancing efficiency, reducing costs and improving customer satisfaction as well as the fundamental strengths of our business model.

We made good progress during the year in lowering costs including significant reductions to G&A expenses (down 14.7%) and distribution costs (down 10.3%). Despite slightly lower revenue in 2013 as a

result of a weaker pricing environment, our focus on reducing costs enabled the Group to deliver an improved EBITDA margin of 15.5%. Group EBITDA was \$2,063 million, 4.4% lower than 2012: a solid performance supported by increased earnings and profitability at both of our steel divisions, Severstal Russian Steel and Severstal International.

The Group made further reductions to debt, lowering gross debt by almost \$1 billion during the year. Our net debt to EBITDA ratio at the year end was 1.8 times which was achieved whilst continuing to invest prudently in improvements to our operational efficiency, health and safety performance and product mix and customer care. With our ongoing focus on delivering operational improvements

and reducing costs, I am confident that we remain on track to deliver our internal target ratio of 1.5 times.

Health and safety continues to be a primary focus for Severstal's management as we strive to eliminate all fatal accident at our operations and reduce our lost-time injury frequency rate ("LTIFR"). LTIFR in 2013 was 1.45, broadly in line with 1.41 in 2012. We also made good progress in reducing the environmental impact of our operations.

Our performance in 2013 was made possible by the hard work, commitment and skill of our people across the Group and I thank them for their continued efforts.

### Strategy

Our strategic goal remains the same: we aim to be a leader in value creation. In the current volatile and challenging market environment, this means the ability to generate solid positive free cash flow throughout the market cycle. We are building a healthy and high-quality business to generate above-industry-average earnings in all market conditions by increasing efficiency at our existing operations, controlling costs, and developing attractive market positions. The Company's focus remains exclusively on the steel and steel-related mining markets and leveraging our strengths as a vertically integrated producer, with self-sufficiency in iron ore and coking coal.

### Efficiency and investment

One of our key focuses in 2013 was on further enhancing our operational efficiency and developing our low cost production. This was aided by our Business System initiatives which are now thoroughly embedded across the Group delivering a competitive advantage through cultural and operational improvements.

We continued to invest prudently in our operations in 2013 with capital expenditure of \$1.2 billion, 18.6% lower than in the prior year. We will continue to adopt a prudent and flexible approach to investment in 2014 with a maintained focus on operational efficiency, health and safety improvements as well as further enhancing our product mix and customer service. Our 2014 capital expenditure target of \$976 million is approximately 17% lower than 2013 and will include maintenance investment of approximately \$570 million. Selected major development projects ongoing in 2014 across the Group include the launch of the Balakovo Mini-Mill; the revamp of our cold rolling mill at Cherepovets; the completion of a specialised steel service center near St. Petersburg, and; the operational consolidation of Vorkutaugol's Zapolyarnaya and Vorkutinskaya coal mines through the construction of an inclined shaft.

### Severstal Russian Steel

Severstal Russian Steel is a world-class, low cost and highly efficient steel producer. Despite somewhat weaker demand and average selling prices 10.1% lower than 2012, the division was able to increase steel shipments by 3.4% year on year to 10.6 mt and partly mitigate the impact on revenue by further increasing sales of specialised and high value-added ("HVA") products as well as our relentless focus on service and meeting customers' evolving needs. The share of HVA products in the sales portfolio increased to 48% (2012: 46%) and revenue was \$8,033 million (2012: \$8,617 million).

Despite lower revenue, the division delivered a 5.3% increase in EBITDA to \$1,008 million (2012: \$957 million) driven by lower input prices in conjunction with management's focus on reducing both production and G&A costs. The division's EBITDA margin also increased, by 1.4 pts to 12.5%.

Major investment projects during the year included the completion of the Balakovo Mini-Mill, the development of a specialised steel service centres and the modernisation of the Izhora Pipe Mill.

### Severstal Resources

The division's focus in 2013 was on further reducing costs, which we achieved across all our mining units with the exception of PBS Coals. However, the pricing environment for steel-related commodities in 2013 was challenging, with coking coal realized prices down circa 20 per cent and iron prices down between two and five per cent year on year. This, along with lower overall volumes, resulted in Severstal Resources reporting revenues 11.3% lower year on year at \$2,665 million and the division's EBITDA was \$813 million (2012: \$985 million).

Investment projects during the year included capacity expansion at Vorkutaugol and the construction of a steeply inclined conveyor at Olcon.

### Severstal International

Severstal International delivered an improved performance in 2013, reporting its highest EBITDA for three years at \$244 million (2012: \$185 million) despite falling steel prices, reflecting the efficiency of our modern and invested assets as well as management's operational and sales improvements. The division's utilization rate is approximately 83 per cent, which was higher than the local industry average of 76%.

### Outlook

Whilst market conditions in 2014 will remain challenging, we will strive to deliver further improvements to earnings through the execution of our stated strategy focused on efficiency and low-cost production, optimising capital investment and delivering value through enhanced customer satisfaction, service and product mix.

We anticipate continued growth in global steel demand in 2014 driven by an anticipated bottoming out of European demand and further improvements in the US economy, which together might result in higher utilization rates for the global steel industry. However, continuing supply growth in both iron ore and coking coal may result in slightly lower prices year on year. In Russia, we expect steel consumption to grow by 3% in 2014 driven primarily by the construction and the oil and gas sectors, which will also drive increased demand for large diameter pipes for new projects.

Overall, I am confident that our focused strategy, business model, well-invested assets and the continued commitment and skill of our people position Severstal well to continuing outperformance against the industry.

**Alexey Mordashov**  
Chief Executive Officer







# Strategy



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Strategic Priorities: Increased Focus on Free Cash Flow Generation

Our goal remains the same: to be a leader in value creation. Severstal's strategy is aimed at building a healthy and sustainable business for the long term, with our priority being to enhance the company's efficiency, not its size. In the current volatile and challenging market environment, the Company has increased its strategic focus on generating solid free cash flow (FCF) throughout the market cycle.

Over the past year we have made significant progress to support this focus, with more to come. We are focused on delivering improvements to our efficiency; decreasing our cost of production;

making sales more efficient; making our capex "smarter", and further developing our Business System initiatives. Together these will help further improve our FCF profile.

We have also expanded our list of financial targets and made them more demanding. In addition to our existing KPIs that target an EBITDA margin of 20 per cent, a net debt/EBITDA ratio of around 1.5 times and 25 per cent of net income paid as dividends, we have added the following KPIs: positive FCF generation, a medium-term capex target of around US\$1bln per year, and further improvements to the position of all our assets on the cost curve.

Cost Position	▶	Middle-to-the-left position of all our assets on the cost curve
Margins	▶	Targeting cycle-average EBITDA margin of c. 20 %
CAPEX	▶	Medium-term target of \$1.0 bln
Net debt	▶	Striving to keep Net debt/EBITDA below 1.5 x
Dividends	▶	Payout of not less than 25 % of Net Income
FCF	▶	Stable positive free cash flow







### Why have you modified the company's strategy and introduced FCF as a KPI?

"In the current environment we believe that a key measure of success is our ability to produce front-loaded FCF which should be used to pay stable dividends and leverage the balance sheet rather than to invest into risky growth projects."

### Severstal's Q3 and Q4 2013 financial results have beaten the earnings consensus: how have you achieved those results?

"Enhancing efficiency across the Group has been a major strategic focus over the last three years and we are now seeing good results from our efforts. We started the roll out of the Business System of Severstal in 2010. It has taken us three years to move from the "investment stage" of the Business System to the "harvesting stage". Our recent financial results are a good indicator that our continuous improvement programmes have started to deliver. Our principle is not to leave any stone unturned. Our efforts range from cultural transformation to the smarter use of financial resources. The target now is to ensure that these results are sustainable."

### What makes you different to the domestic peer group?

"Severstal was very fast to react. In volatile markets quick decision-making determines success. With our development of the Business System which is aimed to support our competitive advantage through cultural transformation we intend to create a differentiated production and management system. Thanks to this, the company hopes to generate higher earnings than the market average in the coming years."

### What are your capital expenditure plans for 2014?

"CAPEX is an important moving part of company financials. We approach CAPEX from two sides: making our maintenance as efficient as possible; and limiting our development CAPEX to some US\$400 mln a year, giving priority to the highest return projects that help us to remove bottlenecks and decrease costs. This still allows Severstal

to grow at a speed that is reasonable in this challenging market environment. Our major steel and mining investment projects are nearing completion and consequently we do not need to cut or put on hold any key projects. Our 2014 target CAPEX is around US\$1 billion and it will be fully financed through our operating cash flow. We believe US\$1 bln is a sustainable level of CAPEX in the medium term and do not currently intend to exceed that amount."

### What are the biggest long-term opportunities for Severstal in steel production or mining?

"We believe that our efficiency improvements provide strong upside potential to our business. In steel we do not plan expansion projects in crude steel capacity. The future of our steel business is in unique product niches, services and high value adding propositions for our clients. In mining, given the markets' volatility, we believe that only the lowest cost projects are worth investment."

### What will be the level of your dividends in 2014?

"We cannot provide guidance on future dividends. Our dividend policy, however, remains consistent: we are committed to pay stable dividends and aim to pay a minimum of 25 per cent of the quarterly net profit. Our focus on FCF and our prudent approach to CAPEX may allow us to increase the dividend payout as we are not restricted to pay no more than 25 per cent."

### How do you view 2014 and what will be your focus?

"Rising lead economic indicators against low steel inventory levels suggest a reacceleration of demand, which could create a recovery in steel pricing regardless of the supply side. However, since overcapacity remains in steel and steel-related mining, our strategy will be to further reduce costs, minimise CAPEX and support only projects with the highest return, prioritising customer care initiatives. In addition, we maintain a prudent financial policy with restrictions on cash-based M&A in the current environment."





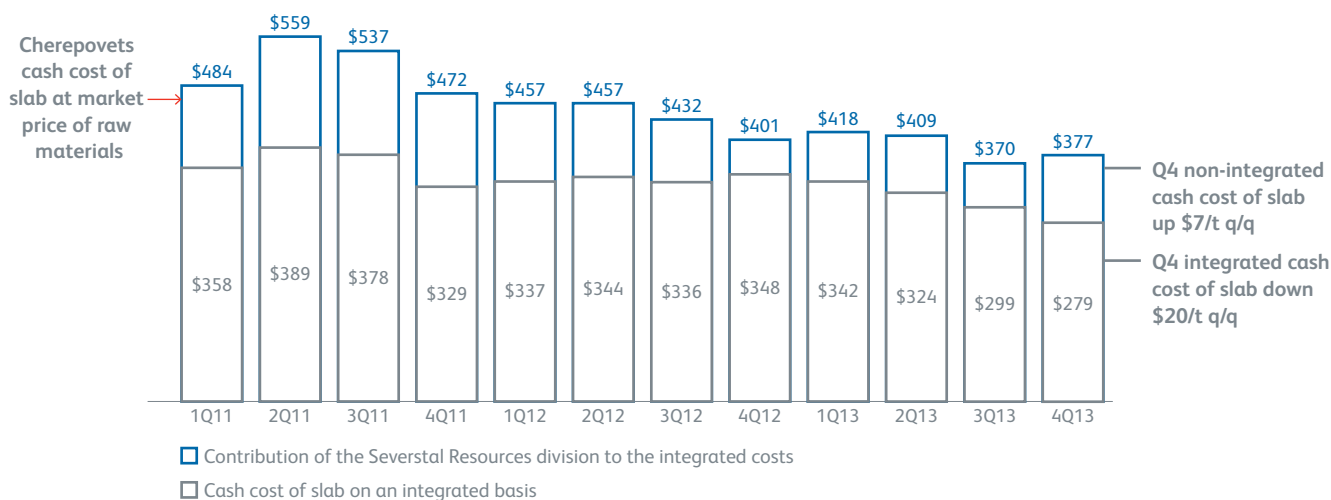




## Case 1 – Improving the cost of production at our steel and mining operations

Our continuous improvement programs have started to deliver. Our target is now to ensure that those results are sustainable.

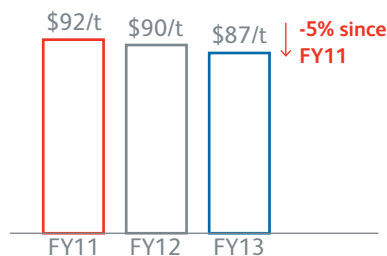
### Cherepovets Steel Mill production cash cost of slab, \$/t



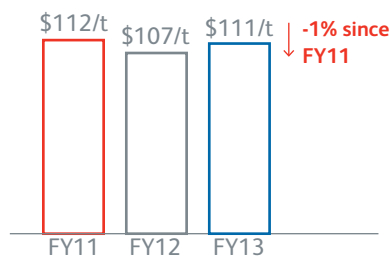
### Cost control at Severstal Resources

**Total cash costs at our mining units were all down over last 3 years**

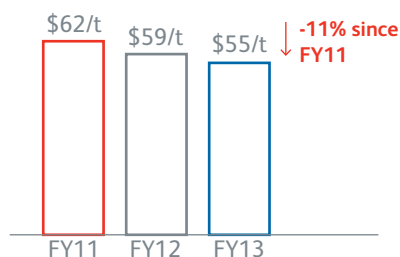
**Vorkuta coking coal concentrate total cash costs**



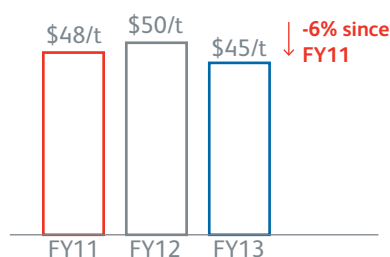
**PBS coking coal concentrate total cash costs**

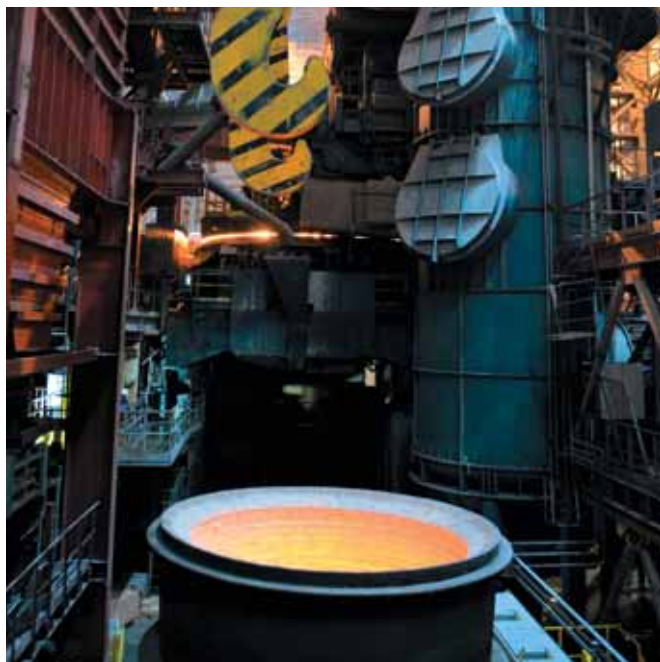


**Karelskiy Okatysh pellet total cash costs**



**Olkon iron ore concentrate total cash costs**





## Case 2 – Smart CAPEX

Severstal is pursuing a continuous reduction of CAPEX and prudent control over maintenance costs. Greenfield investments are concept development and feasibility studies only, requiring no major investment.

### Our CAPEX Priorities

#### Optimization of Maintenance CAPEX:

- Prudent control over repair costs

#### Higher efficiency of Development CAPEX:

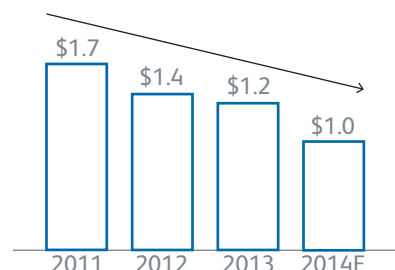
- Focus on projects with the highest return
- Targeting over 20% IRR for all projects
- No additions in crude capacities after the Balakovo Mini-Mill launch
- Investments limited to low-risk, quality/efficiency raising projects

#### Prudent approach to greenfields within our strategic framework

We approach CAPEX from two sides: making our maintenance as efficient as possible; and limiting our development CAPEX to some US\$400 million a year, giving priority to the highest return projects that help us to remove bottlenecks and decrease costs. We believe that US\$1 billion is a sustainable level of our total annual CAPEX in the medium term and do not currently intend to exceed that amount. This still allows Severstal to grow at a speed that is reasonable in this market environment.

### Medium term CAPEX target is \$1.0 bn

Severstal's CAPEX evolution, \$bn

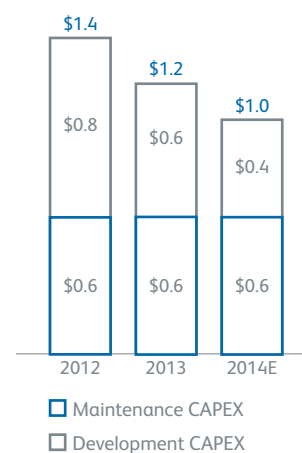


### Smart CAPEX

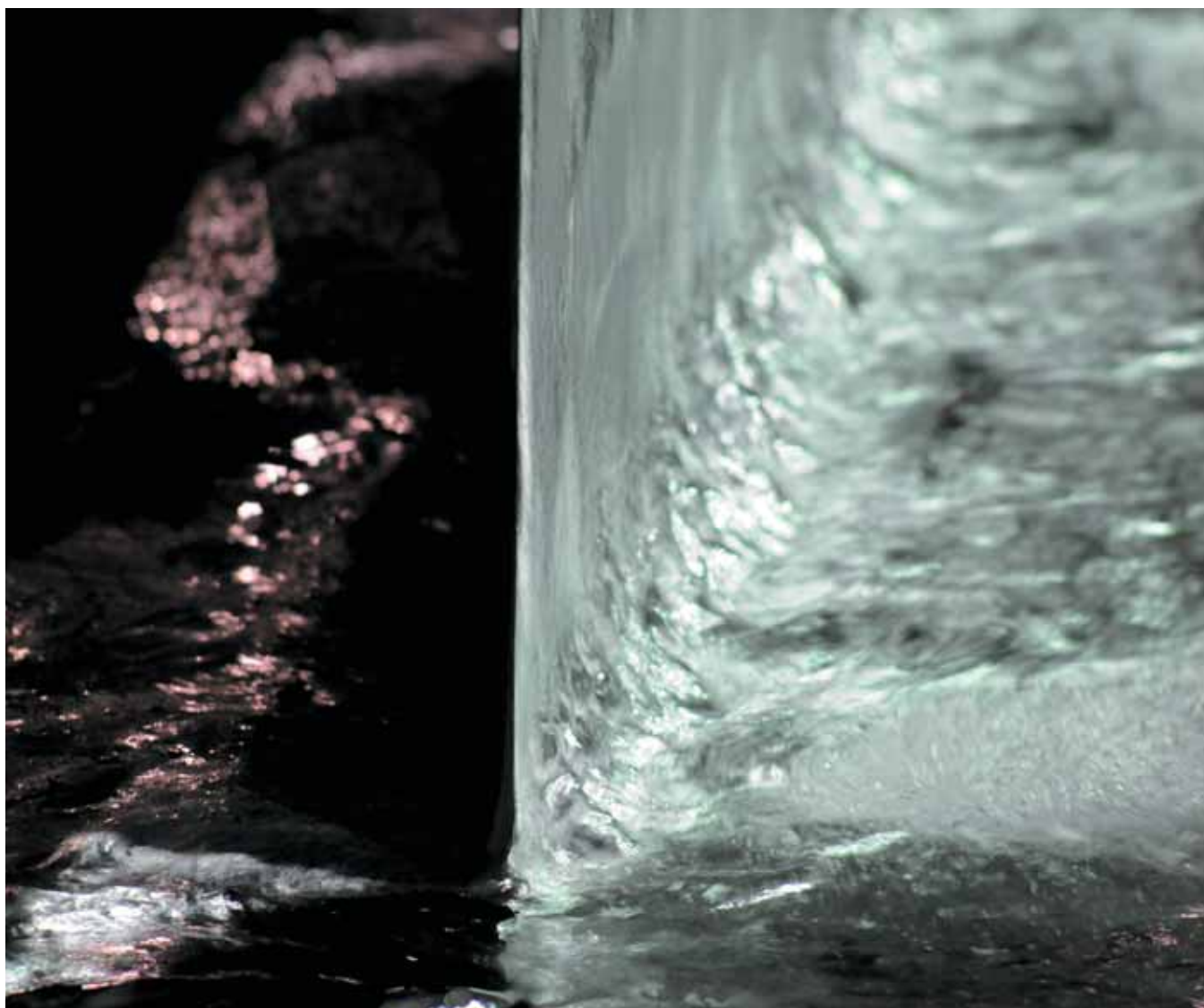
#### Continuous reduction of CAPEX

- Development projects in mining to be completed in 2014
- Only reconstruction of the 4-stand mill remains among the large-scale development projects in Steel
- Prudent control over maintenance costs
- Greenfields investments into concept development/feasibility study only

### Total Capital Expenditure, \$bn



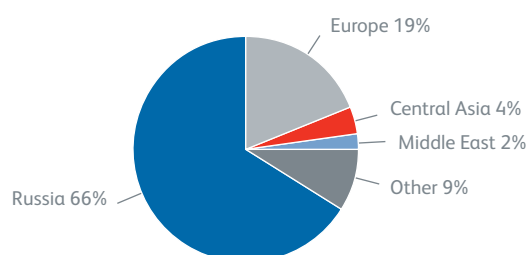




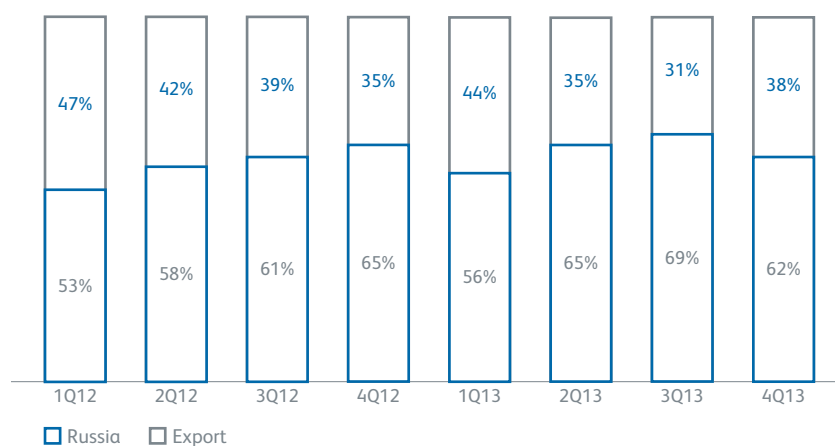
### Case 3 – Flexibility of sales with sizable export revenues

Being close to the Russian regions with the highest steel consumption in the country, Severstal is better located than the majority of its local peers in terms of export ports. This allows us to have “an export alternative” (i.e. the choice either to sell our products domestically or to export them, depending on the price difference), which enables us to generate earnings on our sales that are somewhat higher than the market average.

#### Severstal Russian Steel FY 2013 revenue breakdown by region

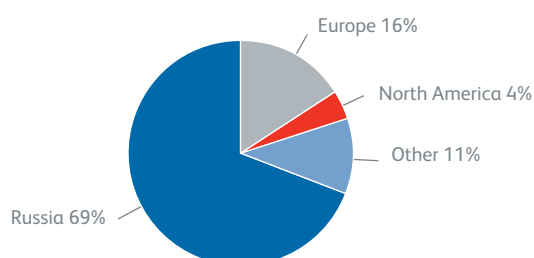


#### Flexibility of Severstal Russian Steel's sales routes



Severstal has large mining assets which form the basis of Severstal's vertically integrated business model. Our mining satisfies almost all our iron ore and hard coking coal requirements, while we also sell increasing volumes to third parties both in Russia and beyond.

#### Severstal Resources FY 2013 revenue breakdown by region





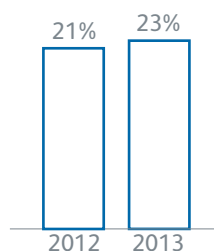




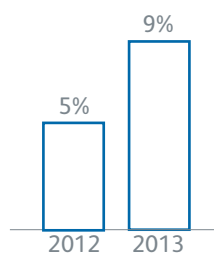
## Case 4 – A reliable supplier to automotive industry

Being close to customers and matching their requirements is the key priority for us. We have launched steel service centres near to automotive producers in St. Petersburg and to the Kaluga automotive clusters and managed to improve quality of our steel to meet their technological needs. We now hold a leading position as a reliable supplier for the automotive industry. We believe that localisation of foreign automotive producers will grow, and we focus on this sector.

### Severstal's share in automotive segment (Russia), %



### Share of sales via Severstal's service centers to the automotive segment, %



Severstal is currently participating in the following companies that serve leading automotive producers located in Russia:

- "Gestamp-Severstal-Kaluga" – stamping plant
- "Gestamp-Severstal-Vsevolozhsk" – stamping plant
- "Severstal-Gonvarri-Kaluga" – steel service center
- "Severstal-SMC-Vsevolozhsk" – steel service center, JV with Mitsui (launched in 2014)









# Performance



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We have three simple operational priorities: to have low-cost production across all of our operations at all times; to increase our share of high-margin products; and to ensure that all our assets have low CAPEX requirements. All these three priorities are being implemented at all our three business divisions with the ultimate goal of generating strong positive free cash flow.

Dear Shareholders,

I was pleased and honoured to become Severstal's Chief Operating Officer in 2013, ten years after I joined the company.

The last few years have been marked by a severe decline in the price of both steel and mining products across the globe. This has driven up to 60 per cent of the world's steel companies into negative free cash flow (FCF), according to analyst estimates.

Severstal's response has been to strengthen its position as a low-cost producer. As much as possible we are moving our assets with solid fundamentals to the left of the cost curve and divesting other units, as we did with our three US assets in 2011–2012. For the remaining assets we have three simple operational priorities: to have low-cost production across all of our operations at all times; to increase our share of high-margin products; and to ensure that all our assets have low CAPEX requirements. All these three priorities are being implemented at all our three business divisions with the ultimate goal of generating strong positive free cash flow.

### Upstream operations

The relentless cost management initiatives of recent years have turned Vorkutaugol into one of the most profitable coking coal producers in Russia. This is a status that it reconfirmed again in Q3 and Q4 2013. The company has been keeping the cash cost of production almost flat for the last five years despite inflation. Output rise, Vorkutaugol increased its sales of coking coal concentrate by 7 per cent in 2013. So far, this achievement does not reflect the incremental gain we hope to see when we complete the expansion of the Pechorskaya Washing Plant by 2 million tonnes at the end of 2013 and launch inclined shafts at three of the mines at Vorkutaugol in 2014.

Karelsky Okatysh reached two pivotal points in its mine plan in 2013. The first was record production of 10.6 million tonnes of pellets a year. The second was that it passed the peak of its stripping ratio in 2013. This is now set for gradual and continued decline until the end of the mine's life in many years' time. We have been wisely investing in stripping recently, especially during the "fat years for mining" in 2010 to 2011, when our EBITDA margin was sometimes above 50 per cent. Our focus now is increasing the pellets quality. Separate processing of raw product should drive the iron content of fluxed pellets from the current 63.7 per cent to some 66 per cent in 2014. The key beneficiary will be our Cherepovets Steel Mill.

Iron ore concentrate producer Olcon has been pursuing similar goals to Karelsky in recent years. These are to keep the production volumes stable; pass the peak of the stripping ratio; and to manage costs. The only concern for Olcon is the short life of the mine, which has now been fixed. Following the completion of an independent JORC audit in 2013, Olcon confirmed 16 more years of the mine life at current production volumes. Major infrastructure projects at Olcon include the construction of a high-angle conveyor and a new dryer to replace an obsolete one – both will be launched in 2014 and will further reduce costs.

We hope that PBS Coals, a small coking coal producer in the USA, will reopen its idled mines in 2014 if the market rebounds, as most analysts expect.

In this challenging market, the strength of our balance sheet is the key priority, so we have slowed the pace of development of our mining greenfield portfolio. With some possible exceptions, our investment in those projects will be very limited in the coming years.

### Downstream operations

As long as the Russian steel market is maturing, we believe we should continue to consistently differentiate ourselves from the competition by delivering a higher level of services and quality to the most demanding steel customers. Some progress has already been made. Our share of sales to international automotive companies in Russia increased from 33 per cent to 44 per cent between 2012 and 2013.

Our second priority in steel is to use the logistics advantage we have in Russia. The Cherepovets Steel Mill is close to centres of high steel consumption and is also one of the closest mills to major export routes.

Our main production priorities are continued cost cutting, and increase of the "first-time through" (FTT) ratio at each stage of production. This means producing fewer defective products and stabilising the quality of the products we manufacture. We will continue the selective upgrade and development of Severstal Russian Steel, including a revamp of the cold-rolling mill, further roll out of chain-of-service centres, and the expansion of the Steel Solutions project. Cost control measures at Severstal Russian Steel in 2013 included the increased use of hot iron in the blast furnace as opposed to scrap; the use of on-site metallic slags; the commissioning of the Coke Battery #7; higher on-site energy generation; and personnel optimisation.

Our key steel project in 2014 is the launch of our 1 million tonnes Balakovo Mini-Mill in Russia. We believe that this has strong fundamentals, thanks to its good location, the surplus of scrap and energy in the region, and the underlying demand for steel.

In the USA we are seeing strong local steel demand and believe that we are well-positioned to capture this growth. Our key priorities at Severstal North America are to make further operational enhancements, to improve scrap and pig iron purchases, and to grow our share of high value added products. In 2013 both of our US assets – Dearborn and Columbus – decreased their costs of production year-on-year.

### Smart CAPEX

We have set a target for our CAPEX not to exceed US\$1 billion in the mid-term. Our confidence in this figure comes from the fact that several major projects in mining will be completed in 2014 and we do not have a similar scale pipeline to come. In addition to this we are optimising our maintenance CAPEX while maintaining our reliability or safety requirements and our mining greenfields will be developed selectively and slowly.

After achieving an EBITDA margin of 17 per cent and 18 per cent in Q3 and Q4 of 2013 respectively, we are looking with more confidence into the future.

**Vadim Larin**  
Chief Operating Officer





Reflecting the confidence in the outlook and the financial strength of the company, the Board of Directors has recommended a dividend payment of 3.83 roubles per share and per GDR (approximately US\$0.11) for the 12 months ended 31 December 2013.

The dividend is to be approved at the AGM on 11 June 2014.

If approved, the dividend amount for all the quarters of 2013 will total 8.30 roubles.



Dear Shareholders,

2013 was an important year for Severstal, during which we continued to execute and develop our strategy for the long-term, sustainable development of our business. We made a number of structural and organizational changes to further reduce costs and enhance efficiency and we revised our strategic targets to increase our focus on free cash flow generation and deleveraging. These changes, in combination with the further roll out of our Business System projects which are now thoroughly embedded across the Group, enabled Severstal to consistently improve its earnings performance throughout the course of the year.

In 2013, our steel divisions – Severstal Russian Steel and Severstal International – delivered increased earnings and profitability despite weaker realized prices. In 2013, we continued to focus on lowering production costs at our mining operations and, encouragingly, our Russian coking coal operations at Vorkuta increased sales volumes despite a competitive and challenging market.

Q4 2013 was our strongest quarter in 2013 and represented the Group's fourth consecutive quarter of earnings improvement with EBITDA of \$611 million. Our EBITDA margin in Q4 2013 also increased, to 18.1 per cent, representing the highest level since Q4 2011.

The main drivers for our improving earnings performance in 2013 were our rigorous focus on cost optimization and the realization of our efficiency initiatives, which led to:

- a 4.1 per cent decrease in Group cost of sales, achieved despite higher steel products sales volumes;
- a 14.7 per cent decrease in Group G&A expenses to \$639 million (FY12: \$749 million);
- a 10.3 per cent decrease in Group distribution costs, and;
- a second consecutive year of unit cost reductions at our Russian mining operations.

We continued to improve our debt profile, lowering our debt the while improving our earnings. During the year we continued to decrease our gross debt, finishing the year with \$4,754 million, which is 16.7 per cent down as compared to EOY2012. In other

words, we lowered our gross debt over the last year by almost \$1 billion. The net debt dynamics followed: as of EOY2013 the net debt was \$3,718 million, which is 6.7 per cent lower as compared to EOY2012. During the course of the year our net debt/EBITDA ratio increased to 2.2 x from 1.8 x as of EOY12. However, our operational improvements and cost reduction initiatives enabled us to return to 1.8 x by end of the year and we are now well on track to achieve our internal target of 1.5 x.

We are comfortable with our strong liquidity position with \$1,036 million in cash and cash equivalents and committed unused credit lines of \$1,518 million, more than covering short-term debt of \$1,085 million (including exercise of call option on 10.25% Severstal Columbus HY Bond of 525 million).

CAPEX in 2013 was \$1,178 million, 18.6 per cent down year on year. We believe \$1 billion is a sustainable level of annual CAPEX over the medium term and do not currently intend to exceed that amount.

Reflecting confidence in the outlook and the financial strength of the company, the Board of Directors has recommended a dividend payment of 3.83 roubles per share and per GDR (approximately US\$0.11) for the 12 months ended 31 December 2013. The dividend is to be approved at the AGM on 11 June 2014. If approved, the dividend amount for all the quarters of 2013 will total 8.30 roubles.

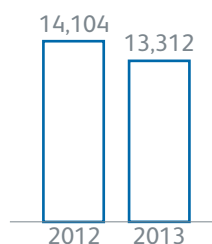
Following our recent year's tradition, we held a Capital Markets Day on 14 th of November 2013 in London for the third consecutive year, continuing to deliver on our commitment to hold Capital Markets Day events on an annual basis. The members of Severstal's senior management team updated investors and analysts on the company's progress on the stated strategic objectives. During the event we demonstrated that Severstal's focused strategy and vertically integrated business model positions the company to deliver continued outperformance throughout the industry cycle.

Despite another challenging year for the industry Severstal was able confirm its credit rating profile at BB+ by Standard & Poor's and Ba1 by Moody's.

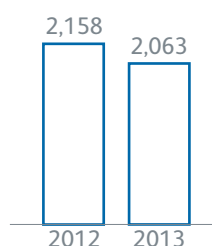
**Alexey Kulichenko**  
Chief Financial Officer



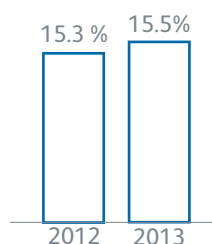
## Revenue in 2013 (US\$ million)



## EBITDA in 2013 (US\$ million)



## EBITDA margin in 2013 (ratio)



Severstal achieved a solid set of results in 2013, despite a challenging environment for the steel, iron ore and coking coal markets. The company increased its EBITDA margin to 15.5 per cent, reflecting the resilience of the business and the growing effect of operational enhancement projects launched since 2010.

We managed to maintain almost full utilisation of all our operations for another year. The operations of the Severstal Russian Steel business were marked by cost savings, the removal of bottle necks and the finalisation of our major steel investment project – the Balakovo Long Products Mini-Mill. The mill started trial operations in December 2013 and is scheduled for a normal launch in Q2 2014. Once fully utilised, it will produce one million tonnes of long products a year, increasing Severstal's total output of that type of product to around 2.3 million tonnes a year.

In the US we successfully ramped-up our new High Value Added facilities which were launched in 2011-2012, reaching a historic high for our EBITDA margin of 9.2 per cent in Q4 2013.

Our mining business slightly decreased its sales volumes in 2013, compared to 2012, mostly due to the idling of capacities at our US coal business PBS as a result of record low prices. Our Russian iron ore

and coal assets managed to keep their sales volume almost unchanged to 2012 reflecting the fundamental strength of those assets and the impressive effect of our cost improvement programmes.

### Our Key Financial Policy KPIs:

- 0.5–1.5 x Net Debt/EBITDA
- Not less than US\$1 bln liquidity expressed by cash on balance and available committed credit lines
- Dividend policy at 25 per cent of net profit
- ROCE of >20 per cent
- NWC of c.18 per cent of revenues
- Positive Free Cash Flow

### Status as at the end of 2013:

- Net Debt/EBITDA of 1.8 times
- Solid liquidity position of US\$ 1,036 m in cash and cash equivalents. Plus committed unused credit lines of US\$ 1,518 m
- Not less than 25 per cent of net profit
- ROCE<sup>2</sup> of 10.3 per cent
- NWC of 14.4 per cent of revenues
- Free cash flow for FY2013 of US\$ 488 m

### Revenue

The global economic slowdown in 2012 led to a decrease in steel, iron ore and coking coal prices, affecting our results. Our full year revenue decreased by 5.6 per cent to US\$ 13.3 billion, mostly due to slightly weaker sales volumes at Severstal Russian Steel and overall lower realised prices. Severstal International managed to keep its revenue unchanged on the back of improving US macroeconomics and strong steel prices.

### Change in the Divisions' revenue in FY2013 vs. FY2012 (US\$ million)



### Our Russian steel business – commercial and market highlights for 2013:

- In 2013, Russian steel consumption grew by an estimated three per cent, according to industry experts, and a similar three per cent growth is forecast for 2014. Domestic steel production in Russia reached 69 million tonnes, 1.5 per cent lower than in 2012 and 5.5 per cent lower than the forecast. Average capacity utilisation was around 80 per cent, almost the 2012 level. The market

<sup>1</sup> Here and thereafter FY 2012 amounts reflect adjustments made in connection with the change in classification of income and expenses related to finance operations between general and administrative expenses, gain/(loss) on remeasurement and disposal of financial investments, net other operating income (expenses) and net finance costs to more appropriately reflect their nature.

<sup>2</sup> ROCE is calculated by the following formula: profit from operations/(total assets minus current liabilities average for the period), as reported in 2013 FS.



suffered from overcapacity, so average steel prices and volumes declined during the year.

- The division continues to regard Russia as its most important market. Its main domestic customers include pipe mills and construction companies, machinery and automotive clients. In 2013, Severstal Russian Steel sold 10.6 million tonnes of steel products (excluding scrap), including 6.7 million tonnes to the domestic market. The share of sales volume to the Russian market grew to 63 per cent in 2013 from 60 per cent in 2012. In 2014, Severstal Russian Steel aims to further increase its share of domestic sales, and we expect that future growth will be driven primarily by increased sales to the main domestic customers.
- Against the decrease in volumes and prices due to the lower demand, Severstal Russian Steel managed to improve its sales portfolio by increasing the share of higher value added, more profitable products like colour-coated steel and structural pipes.
- We also managed to keep our capacity utilisation rate at around 95 per cent, above the local industry average of 80 per cent.

#### Our mining business – commercial and market highlights for 2013:

- In 2013, the Russian coking coal market mostly followed the global trend of weakening prices. According to market experts, domestic coking coal production output reached 53.2 million tonnes, 2.5 per cent higher than in 2012. Severstal's Vorkutaugol sold a total of 5.6 million tonnes of coking coal concentrate in 2013, that is 6.5 per cent above the level of 2012. This was due to the fact that Vorkutaugol almost exclusively supplies its high quality coking coal to Russia (the 'Zh' brand), and hence has stable demand. The geography of export sales expanded through Ukrainian and European contracts.
- In the USA, the local coking coal market contracted in 2013 due to low export prices. To preserve earnings, PBS Coals company had to idle some of its mines producing coal for export spot supply. As a result, PBS Coals coking coal production was 1.6 million tonnes, 27 per cent below the 2012 level. Export sales expanded through European, Northern African and Asian contracts.
- Prices for iron ore Russia moved largely in line with Chinese spot prices, with a time lag of a few months. Like coking coal, domestic iron ore prices demonstrate a certain degree of inertia compared with international benchmarks. In 2013, Russian iron ore production reached 96.7 million tonnes, 2.1 per cent below the 2012 level. Karelsky Okatysh and Olkon decreased their sales of iron ore products by 0.7 per cent to 15.1 million tonnes, to both domestic and international clients. Export sales expanded abroad through European and Asian contracts.

#### Our US business – commercial and market highlights for 2013:

- In 2013, demand for light flat rolled steel was estimated at 66.6 million tonnes, a slight decline of 1.9 per cent from the 2012 demand of 67.9 million tonnes. Industry experts forecast that demand for light flat rolled products in NAFTA will grow by 4.8 per cent in 2014 driven by a rebound in consumption in the U.S., Canada, and Mexico.
- U.S. capacity use was 76.7 per cent in 2013, slightly higher than the 75.7 per cent reported in 2012.
- The market continued to suffer from overcapacity and imports, which had a negative impact on steel prices, and both volume

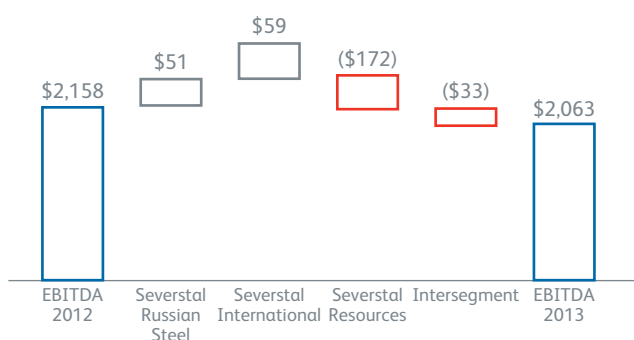
and capacity utilisation declined throughout most of the year. Including preliminary census data, flat rolled imports finished the year 4.3 per cent higher than 2012.

- Severstal shipped 4.7 million tonnes in 2013 for a market share of 7.1 per cent of NAFTA shipments. We increased annual shipments by four per cent compared to 2012. Severstal's utilisation rate is approximately 83 per cent, above the industry's 2013 average of 76.7 per cent.
- Severstal's key market sectors include automotive, energy (oil & gas) and service centres. Dearborn shipments are heavily focused on the automotive industry and total Severstal shipments to this segment reached 1.3 million tonnes in 2013.

#### EBITDA

On an annual basis, weaker global prices for steel and raw materials resulted in a slight decline at the EBITDA level with Severstal Russian Steel and Severstal International being the most resilient. Severstal Resources EBITDA decreased due to weaker pricing and volumes.

#### Change in the Divisions' EBITDA in FY2013 vs. FY2012 (US\$ million)



#### Cash Flow

Severstal has a strong cash position, with US\$ 1,036 million in cash and cash equivalents. In addition to this we have committed unused credit lines of US\$ 1,518 million. Operating cash flow of US\$ 1,578 million more than covered the 2013 cash CAPEX of US\$ 1,178 million.

#### Capital expenditures

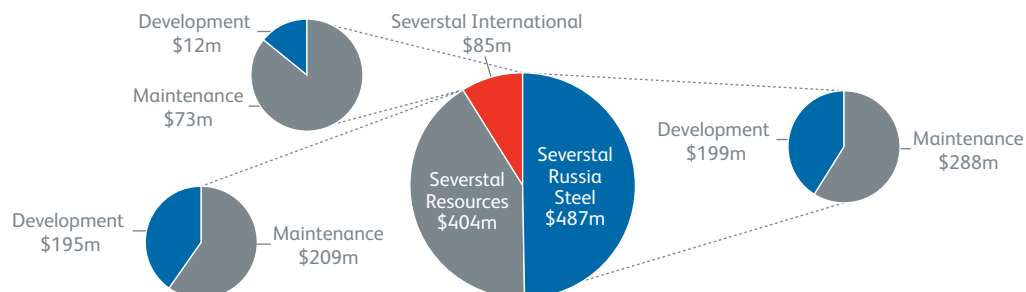
Our 2013 cash CAPEX amounted to US\$1,178 million. This was 12 per cent lower than initially planned. CAPEX was adjusted during the year in light of slowing market conditions.

During the company's annual Capital Markets Day in November 2013, Severstal's top management, led by the CEO Alexey Mor-dashov, updated investors and analysts on the company's strategy and development plans. In particular, we said that we approach CAPEX from two sides: making our maintenance as efficient as possible; and limiting our development CAPEX to some US\$400 million a year giving priority to highest return projects that help us to debottleneck and decrease costs. That approach brings us to a total annual cash CAPEX spending of US\$1 billion in the medium term and we do not currently intend to exceed that amount. That would still allow Severstal to grow at a speed that is most reasonable in this challenging market environment. Our major steel and mining investment projects are nearing completion and consequently we do not need to cut or put on hold any key projects.

### Plans for 2014

Our 2014 target cash CAPEX is around US\$1 billion and it will be again fully financed through our operating cash flow.

### 2014 CAPEX highlights



#### Major FY14 projects at Severstal Resources:

- Consolidation of Zapolyarnaya and Vorkutinskaya mines, construction of inclined shaft at Zapolyarnaya
- New water rotation unit and enhancing stripping works at Karelsky Okatysh
- Capacity expansion at Pechorskaya Preparation Plant

#### Major FY14 projects at Severstal Russian Steel:

- Completion and launch of Balakovo mini-mill
- Revamp of cold rolling mill in Cherepovets
- Completion of the development of a specialized steel service center in St. Petersburg
- Reconstruction and modernization of Orel Plant (Severstal Steel Solutions)





## Liquidity and debt position

Severstal adheres to a conservative approach to its debt portfolio management. Positive relationships with the banking community and proven access to domestic and international debt capital markets have enabled us to form a well-diversified financing structure that does not depend on a single market or source of financing.

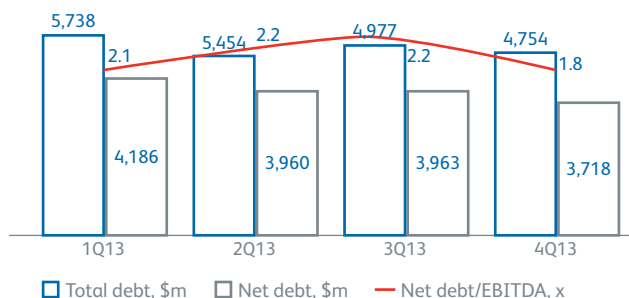
## Debt and leverage dynamics

Over FY2013 we kept on decreasing our gross debt finishing the year with US\$4,754 million of gross debt, which 16.7% down as compared to EOY2012. In other words, we lowered our gross debt over the last year by almost US\$1 billion.

The net debt dynamics followed the one of the gross debt: as of EOY2013 the net debt was US\$3,718, which is 6.7% lower as compared to EOY2012. During FY2013 our net debt/EBITDA ratio went up to 2.2x from 1.8x as of EOY2012. However our operational improvements and cost cutting initiatives enabled us to return to 1.8x by EOY13 and we are now well on track to achieve our internal target of 1.5x.

In 2014 we intend to reduce our gross debt further by approximately another US\$1 billion.

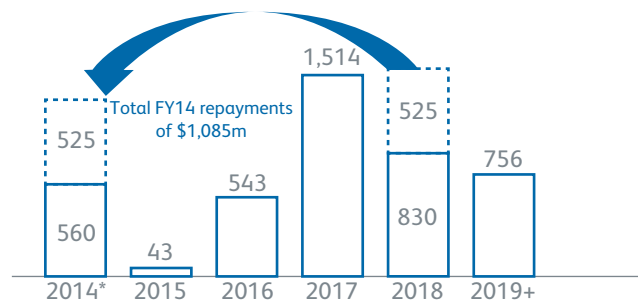
We still prefer public debt as a long-term source of capital on attractive terms. As of 31 December 2013, 89 per cent of our debt was represented by public debt.



## Improvement of the debt maturity calendar and reduction in the cost of capital

Our strong credit metrics enabled us to improve our debt profile and refinance part of our public debt instruments with more favourable issuances in 2013. In March 2013, Severstal successfully issued US\$600 million bonds denominated in US Dollars maturing in 2018 with the record low interest rate of 4.45 per cent per annum. Lower interest rates help us to reduce interest payments, adding to the company's financial stability and keeping liquidity in the company. In October 2013, the credit facilities of Severstal Dearborn LLC and Severstal Columbus LLC were successfully refinanced – cost of debt was successfully decreased, financing conditions were significantly improved.

**We have a well-managed debt maturity profile: the majority of our debt is long-term and we have no large payments to make until 2017.**



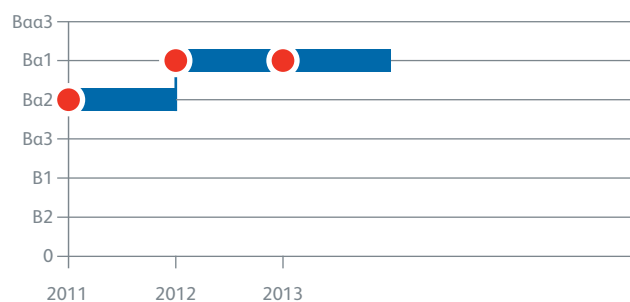
This chart represents principal amount of debt

\* Including exercise of call option on 10.25 % Severstal Columbus HY Bond of \$525m.

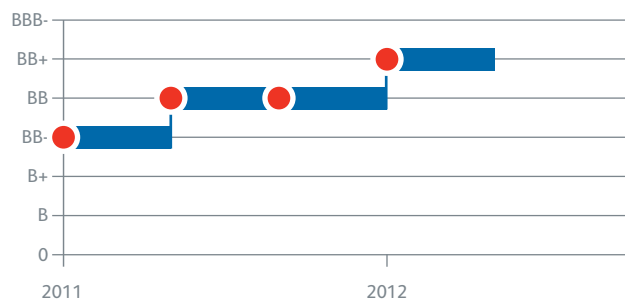
## Credit ratings evolution in the recent three years

Despite the challenging year for the industry, Severstal managed to improve its credit rating profile. Moody's changed its outlook for Severstal from "stable" to "positive" on 26 August 2013.

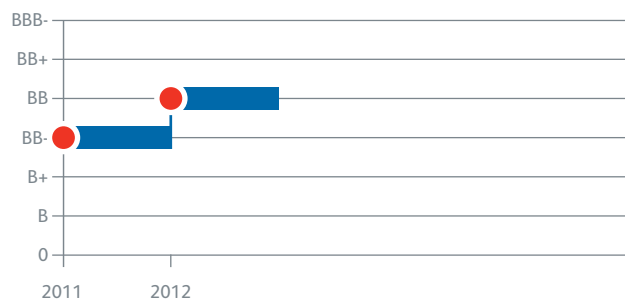
## Rating appropriated by agency Moody's



## Rating appropriated by agency S&P



## Rating appropriated by agency Fitch

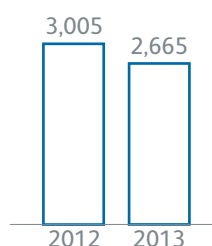


Severstal Resources manages all of Severstal's mining assets, forming the basis of Severstal's vertically integrated business model. It satisfies almost all of the iron ore and hard coking coal requirements of Severstal Russian Steel and Severstal International divisions' steel operations, while also selling increasing volumes to third parties.

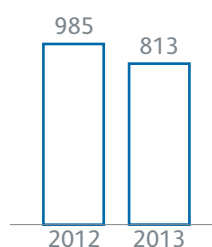
Severstal Resources mines iron ore and coking coal in Russia, and operates a coking coal complex in the USA. The coal businesses are among Russia's top five coking coal producers, while the iron ore businesses are leaders by extraction volume in their respective markets.

The key focuses for Severstal Resources in 2014 are cost control and removal of bottlenecks with parallel growth in volumes.

### Revenue in 2013 (US\$ million)



### EBITDA in 2013 (US\$ million)

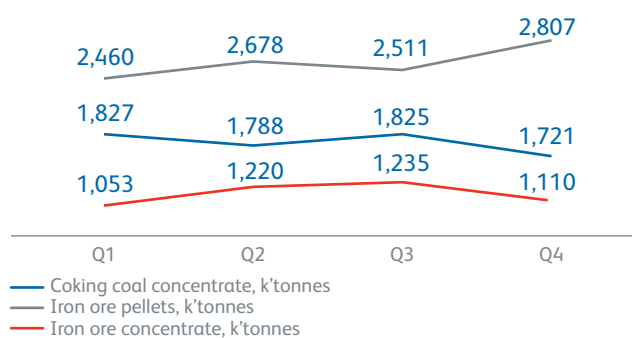


### Key 2013 highlights:

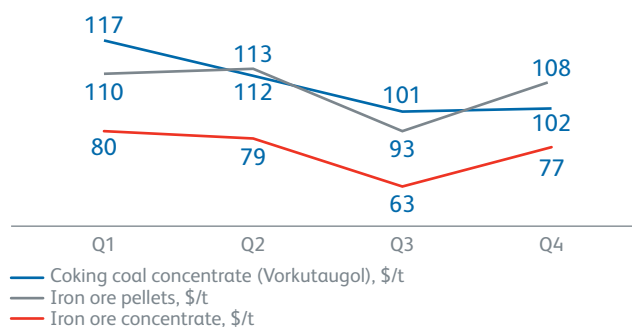
- Russian domestic prices of bulk commodities generally follow global trends, although there is also a local component to their dynamics. Domestic coking coal prices vary according to their quality. Russian hard coking coal (HCC) is priced largely in line with the Australian and US products (such as BMA's Peak Downs and Gregory) adjusted for the cost of rail freight and port handling. Semi-hard coal usually sells at a 10-20 per cent discount to the HCC brands. At the same time, the "ZZH" brand of high quality coking coal, which is our premium product, is priced in line with the imported alternative from the USA, which allows us to sell ZZH at a premium to the domestic market.
- In 2013, the Russian coking coal market mostly followed the global trend of weakening prices. According to market experts, domestic coking coal production output reached 53.2 million tonnes, 2.5 per cent higher than in 2012. Severstal's Vorkutaogol sold a total of 5.6 million tonnes of coking coal concentrate in 2013, that is 6.5 per cent above the level of 2012. This was due to the fact that Vorkutaogol almost exclusively supplies Russia's high-quality coking coal (the 'Zh' brand), and hence has stable demand. The geography of export sales expanded through Ukrainian and European contracts.

- In the USA, the local coking coal market contracted in 2013 due to low export prices. To preserve earnings, PBS Coals idled some of its mines producing coal for export spot supply. As a result, PBS Coals coking coal production was 1.6 million tonnes, 27 per cent below the level of 2012. The geography of export sales expanded through European, Northern African and Asian contracts.
- Prices for iron ore in Russia moved largely in line with Chinese spot prices, with a time lag of few months. Like coking coal, domestic iron ore prices demonstrate a certain degree of inertia compared with international benchmarks. In 2013, Russian iron ore production reached 96.7 million tonnes, 2.1 per cent below the level of 2012. Karelsky Okatysh and Olkon decreased their sales of iron ore products to both domestic and international clients by 0.7 per cent to 15.1 million tonnes. The geography of export sales expanded through European and Asian contracts.
- In 2013, cost management continued to be one of our key priorities. In 2013 we managed to keep cash costs of production across our mining assets almost flat.
- In 2012, we completed a pre-feasibility study at the Putu Range iron ore project in Liberia, Africa, that allowed us to better assess the economic rationale for the project's development. Also in 2012, an independent report provided increased estimates of iron ore resources at the Putu iron ore deposit up to 4.4 billion tonnes within the optimised pit shell, with an average 34 per cent iron grade. This represents a marked increase from the last year's estimates from an independent report that measured Putu iron ore resources at 3.2 billion tonnes. We expect to complete a feasibility study of the Putu Range project by Q2 2014.

### Dynamics of Severstal Resources' sales volumes in 2013



### Dynamics of Severstal Resources' average prices in 2013



## Key production facilities:

### Iron ore production

We operate two iron ore extracting complexes: **Karelsky Okatysh**, which produces iron ore pellets, and **Olkon**, which produces iron ore concentrate.

**Karelsky Okatysh**, in Karelia, north-western Russia, is one of the country's leading and most modern iron ore mining complexes, producing around 20 per cent of all Russian iron ore pellets. It mines magnetite quartzite ores and produces high-quality iron ore pellets with an iron concentration of between 63 per cent and 65 per cent. The two major deposits, Kostomuksha and Korpanga, have an estimated life of 30 years. The average iron concentration of reserves is approximately 28 per cent. The complex has consistently increased its output in recent years. In 2013, the production volume of iron ore pellets exceeded 10.6 million tonnes.

**Olkon**, in the Murmansk region, is Russia's most northerly iron ore complex, and has been supplying Cherepovets Steel Mill since the 1950 s. It mines magnetite-hematite quartzite ores from five open pits, and produces high-quality iron ore concentrate, crushed stones and ferrite strontium powder. Olkon acquired an additional mining licence for the Anomalny deposit, which has estimated non-JORC reserves of 47 million tonnes. Olkon's deposits have an estimated life of 12 years. In 2013, the production volume of iron ore concentrate exceeded 4.6 million tonnes.

### Coal production

We mine coal at **Vorkutaugol** in Russia and at **PBS Coals** in Pennsylvania, United States.

Vorkutaugol is near Vorkuta in the Komi Republic in north-east European Russia. It mines coking and steam coal, and is one of Russia's largest producers of hard coking coal. Coking coal produces coke which is used for steel production. Steam coal is used in the energy and chemical industries. We operate the Vorkutinskoye and Vorgashorskoye coal deposits here, with an estimated life of 29 and eight years respectively. The business consists of five longwall mines, an open-pit mine and three washing plants.

PBS Coals produces coking and steam coal from several surface and underground mining complexes near Somerset, Pennsylvania. Estimated coal reserves are approximately 53 million tonnes and estimated resources are 73 million tonnes. Steam coal is sold for domestic electricity generation, and coking coal is shipped to the steel industry worldwide and to our own nearby steel-producing facilities.

## Operational and financial overview

### Safety

Over the past five years we have reduced our LTIFR by 30 per cent, but the pace of improvement has been slowing. Two years ago we started a safety programme as an integral part of the Severstal Business System. This takes a systematic approach to safe conditions and safe behaviour.

Despite continued efforts to increase the safety of our operations, we were shocked on February 11 2013 when an explosion at the Vorkutinskaya mine at Vortukaugol resulted in 19 fatalities and 3 other casualties, and mining was suspended at the shaft. We have greatly enhanced the mine's safety systems, maintenance and production supervision to prevent any incident of this kind occurring in the future.

### Financial overview

The 2013 pricing environment was challenging for steel-related commodities, especially for coking coal, with realised prices down by around 20 per cent compared with 2012. Iron ore prices were more resilient, following the global benchmark, and retreated by only 2-5 per cent year on year.

As a result, our iron ore shipments remained almost flat year on year at 15.1 mt, while overall coking coal concentrate sales volumes decreased by 4.7 per cent year on year to 7.2 mt. PBS' contraction (31 per cent down year on year) was the key reason behind this drop, while Vorkuta increased its coking coal concentrate shipments by 6.5 per cent year on year to 5.6 mt. Consequently the division's revenue was 11.3 per cent lower than a year ago at US\$2,665 million (FY12: US\$3,005 million). FY13 EBITDA of US\$813 million fell by 17.5 per cent year on year (FY12: US\$985 million).

In 2013, the average headcount at Severstal Resources was 15,909.

### EBITDA drivers in 2013, US\$m





Key performance indicators	2013	2012	Change %
Revenue (US\$ million)	2,664.7	3,004.6	(11.3%)
Gross profit (US\$ million)	1,012.7	1,279.7	(20.9%)
Profit from operations (US\$ million)	554.1	743.1	(25.4%)
Operating margin (%)	20.8%	24.7%	n/a
EBITDA (US\$ million)	812.9	985.5	(17.5%)
EBITDA margin (%)	30.5%	32.8%	n/a
<b>EBITDA margin (%)</b>			
Coking coal concentrate	15.1%	30.2%	n/a
Iron ore concentrate	40.1%	35.9%	n/a
Pellets	47.8%	45.6%	n/a

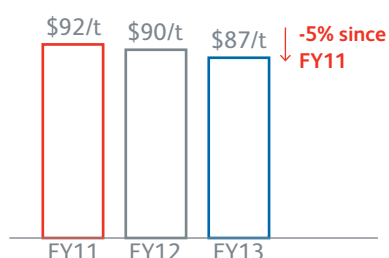
## Costs

In 2013 we continued to fight cost inflation at our mining business units and achieved certain progress at all Russian operations. Vorkuta's unit total cash costs (TCC) were down by 3.3 per cent year on year to US\$87/t, Karelskiy Okatysh decreased its TCC by 6.8 per cent to US\$55/t, Olkon retreated by 10.0 per cent to US\$45/t. PBS was the only unit where TCC rose by 3.7 per cent year on year to US\$111/t as a result of lower sales volumes.

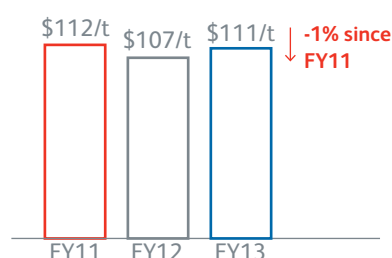
At a big picture level, we have managed to decrease the cost of production at all of our units in the last three years, a task that will continue.

### Total cash costs at our mining units were all down over last 3 years

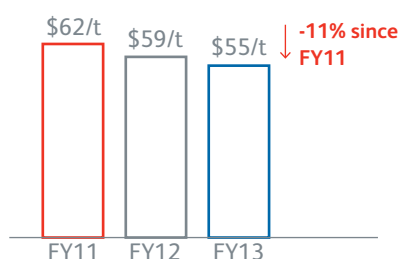
Vorkuta coking coal concentrate total cash costs



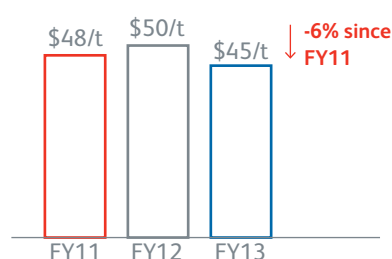
PBS coking coal concentrate total cash costs



Karelskiy Okatysh pellet total cash costs



Olkon iron ore concentrate total cash costs



		2013		2012	Change, %
<b>Cost of sales structure</b>	<b>US\$ million</b>	<b>% of total</b>	<b>US\$ million</b>	<b>% of total</b>	
<b>Materials</b>					
Grinding balls and rods	32.9	2.0%	34.0	2.0%	(3.2%)
Explosives	53.3	3.2%	60.9	3.5%	(12.5%)
Metal – roll	23.0	1.4%	1.5	0.1%	n/a
Technological coals	29.8	1.8%	35.6	2.1%	(16.3%)
Other materials	136.2	8.3%	183.2	10.6%	(25.7%)
Integral implements and spares	102.3	6.2%	123.4	7.1%	(17.1%)
<b>Total materials</b>	<b>377.5</b>	<b>22.9%</b>	<b>438.6</b>	<b>25.4%</b>	<b>(13.9%)</b>
<b>Energy</b>					
Electric power	191.0	11.6%	175.8	10.2%	8.6%
Gasoline	100.1	6.1%	94.2	5.5%	6.3%
Other energy resources	75.5	4.5%	92.3	5.3%	(18.2%)
<b>Total energy</b>	<b>366.6</b>	<b>22.2%</b>	<b>362.3</b>	<b>21.0%</b>	<b>1.2%</b>
Staff costs	474.3	28.7%	511.4	29.6%	(7.3%)
Depreciation and amortization	242.1	14.7%	228.1	13.2%	6.1%
Services	245.5	14.9%	244.6	14.2%	0.4%
Change in inventories	34.6	2.1%	(15.0)	(0.9%)	n/a
Other	(88.6)	(5.5%)	(45.1)	(2.5%)	96.5%
<b>Total costs</b>	<b>1,652.0</b>	<b>100.0%</b>	<b>1,724.9</b>	<b>100.0%</b>	<b>(4.2%)</b>

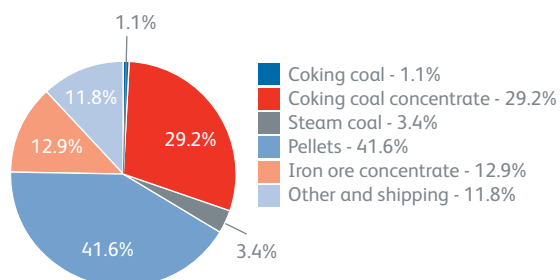
### Sales volumes

Severstal Resources' businesses are among Russia's top five coking coal producers and top three Russian iron ore producers. Our iron ore businesses are leaders in their respective markets by extraction volumes.

Despite a weaker market in 2013, Severstal Resources managed to operate close to full capacity in Russia, selling 10.5 million tonnes of iron ore pellets (the same as in 2012), 7.2 million tonnes of coking coal concentrate (-5 % compared with 2012), and 4.6 million tonnes of iron ore concentrate (-3 % compared with 2012).

		2013		2012		Change, %
<b>Sales by product</b>	<b>Thousand tonnes</b>	<b>US\$ million</b>	<b>Thousand tonnes</b>	<b>US\$ million</b>	<b>Thousand tonnes</b>	<b>US\$ million</b>
Coking coal	558	29.7	622	41.7	(10.3%)	(28.8%)
Coking coal concentrate	7,161	779.4	7,513	1,028.0	(4.7)	(24.2%)
Steam coal	2,360	91.6	2,343	93.1	0.7%	(1.6%)
Pellets	10,456	1,107.3	10,439	1,130.7	0.2%	(2.1%)
Iron ore concentrate	4,618	343.6	4,760	372.1	(3.0%)	(7.7%)
Total sales by products	25,153	2,351.6	25,677	2,665.6	(2.0%)	(11.8%)
Other and shipping	-	313.1	-	339.0	n/a	(7.6%)
Total sales revenue	-	2,664.7	-	3,004.6	n/a	(11.3%)
Inter-segment transactions	(12,569)	(1,181.5)	(12,449)	(1,301.0)	1.0%	(9.2%)

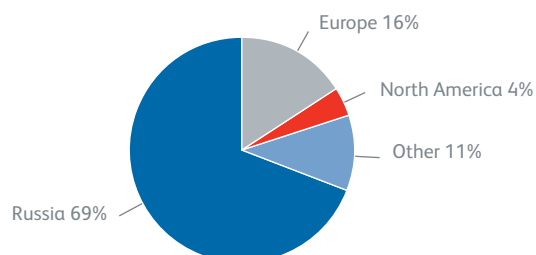
## Revenue breakdown by products, 2013



### Sales by market

Severstal Resources sells its products internally within Severstal as well as on the domestic and international markets. We aim to maintain our domestic market share and expand our international market share in high-quality pellets and coking coal concentrate.

## Revenue breakdown by region, 2013



### Russian market

Russia is the principal market for our mining businesses. Our main customer is the yield-to-maturity Severstal Russian Steel division. Our share of sales on the Russian market in 2013 was 69 per cent. The bulk of our revenue on the Russian market came from pellets and coking coal concentrate sales.

Domestic sales by products	2013		2012		Change, %	
	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
Coking coal	-	-	127	7.9	n/a	n/a
Coking coal concentrate	5,175	561.1	4,847	649.0	6.8%	(13.5%)
Steam coal	2,239	85.3	2,191	84.0	2.2%	1.5%
Pellets	6,886	730.6	7,904	866.4	(12.9%)	(15.7%)
Iron ore concentrate	4,484	333.2	4,760	372.1	(5.8%)	(10.5%)
Total sales by products	18,784	1,710.2	19,829	1,979.4	(5.3%)	(13.6%)
Other and shipping	-	121.1	-	159.4	n/a	(24.0%)
Total domestic sales revenue	-	1,831.3	-	2,138.8	n/a	(14.4%)
Inter-segment transactions	(12,569)	(1,181.3)	(12,436)	(1,298.4)	1.1%	(9.0%)

### Export

Exports accounted for 31 per cent of our total revenue in 2013.

Export sales by products	2013		2012		Change, %	
	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
Coking coal	558	29.7	495	33.8	12.7%	(12.1%)
Coking coal concentrate	1,986	218.3	2,666	379.0	(25.5%)	(42.4%)
Steam coal	121	6.3	152	9.1	(20.4%)	(30.8%)
Pellets	3,570	376.7	2,535	264.3	40.8%	42.5%
Iron ore concentrate	134	10.4	-	-	n/a	n/a
Total sales by products	6,369	641.4	5,848	686.2	8.9%	(6.5%)
Other and shipping	-	192.0	-	179.6	n/a	6.9%
Total export sales revenue	-	833.4	-	865.8	n/a	(3.7%)
Inter-segment transactions	-	(0.2)	(13)	(2.6)	n/a	(92.3%)



In 2013, our principal export products were pellets and coking coal concentrate. Our main shipping destinations were Europe and the CIS (Ukraine).

### Increasing third party sales

We benefit from being a leading Russian supplier of premium quality coking coal and iron ore products. Being economically fully hedged for raw materials for our own steel business, and being close to European and CIS markets, we have been increasing our third party sales volumes in recent years. In 2013, third party shipments of iron ore pellets and coking coal concentrate represented 53 per cent of our total sales volumes of these products.

We remain one of the key iron ore pellets and coking coal suppliers to the Finnish steel company Rautaruukki. In November 2013, Severstal signed a long-term contract for the shipment of iron ore pellets manufactured at Karelsky Okatysh with Oy M. Raumanheimo Ab (the leading logistics company and port operator in bulk and Russian transit cargo services in Finland) based in the Port of Kokkola, Finland. The Port of Kokkola is located 400 kilometers and under 12 hours from Karelsky Okatysh.

The contract covers rail transport by Valtion Rautatiet (VR-Transport), a state-owned railway company in Finland, rolling stock operators from ZAO RWD-Services and logistics company Easyway Logistics. With these companies involved, the contract will extend beyond cargo transshipment services, to include goods transportation at an all-inclusive rate within Finland, as well as the unloading of goods at the port, storage and loading cargo onto vessels for overseas shipping.

Products manufactured at Karelsky Okatysh are exported mainly to Europe via Kokkola. Under this contract, more than two million tonnes of products manufactured at Karelsky Okatysh are expected to be shipped annually through the port of Kokkola.

This is the second long-term contract we have signed with Raumanheimo at the Port of Kokkola, with which we have been collaborating for almost ten years. Supported by our partners we can respond effectively to client deadlines and demand for volume. We plan to build on our relationship with Raumanheimo and the port to expand our shipment capacity and broaden the range of products exported via Kokkola.

### Overview of operational efficiencies in 2013

In 2013, **Vorkutaugol** has completed its major preparation plant's modernization. The Pechorskaya preparation plant's upgrade was based on knowledge transfer from Severstal's US coal operations. The plant's layout was designed in the US, using mostly international equipment. The Pechorskaya preparation plant is now able to process 9.5 million tonnes of coal a year, or + six per cent more than previously. Production costs should go down, as fewer operational and maintenance personnel are required now.

Two inclined shafts at the Zapolyarnaya and Vorgashorskaya mines will reduce costs substantially by removing three skip lifts and eliminating transport bottlenecks. They will also add four million tonnes of processing capacity at a quarter of the cost required to build a new plant of the same capacity.

**At PBS Coals**, volumes can be highly flexible, and adapt to the volatile export market, while maintaining domestic supply. We have idled the least efficient mines to reduce costs and preserve cash flow – one open mine and five deep mines remain in operation. We will be able

to re-open the idled mines when the market picks up.

**Karelsky Okatysh** continues to focus on cost control at its open pit operations. Apart from switching to higher tonnage equipment (220t truck fleet and 30m<sup>3</sup> shovels) it managed to lower its drilling costs in 2013 by 14 per cent, compared with 2012. Major cost reduction at Karelsky Okatysh has come from enhancements to maintenance works. Better cost control was achieved through insourcing of maintenance teams and training them to be multi-functional specialists. The headcount of our in-house maintenance teams was reduced without losing maintenance productivity or equipment uptime.

We continue analyzing opportunities to enhance our operational efficiency. In April 2013, a second dry magnetic separation unit (DMS) was commissioned at Karelsky Okatysh. The DMS technology enables a significant reduction in losses that can result from contamination of ore in the ore-shoot and in large-bucket excavation. DMS technology also helps to substantially reduce costs for ore transportation to the dressing plant.

Our new dry magnetic separation unit is unparalleled in Russia. We have built on our experiences gained from the first DMS unit which has been operating smoothly for a few years at the edge of the open-pit mine at our Korpanskoye deposit and has provided significant benefits. We were the first Russian plant to use DMS in this way, and we will continue innovate and improve our production processes.

Karelsky Okatysh's use of DMS technologies at the edge of an open-pit mine where ore undergoes primary breaking is unique within Russian production. Following the DMS process, the fragments move on a conveyor belt to a magnetic separator to be split into two flows: rock and finished ore, with the latter channeled to a crushing-and-dressing plant.

The second DMS unit has been built, thanks to experiences gained from the first unit, with a larger coarse-ore bin which facilitates loading from 136-tonne dump trucks. An overhead crane has also been installed with the new unit to facilitate maintenance and repairs, and a modified vibration feeder has also been included. These and other innovations have significantly added to the output of the new unit; whereas DMS-1 processes 3 million tonnes of contaminated ore per annum, DMS-2 is capable of processing 4 million tonnes.

The unit is automated nearly all year round, requiring just a single operator to control both ore breaking and dry ore sorting. Surveillance cameras are installed in the DMS storage bin in the dump truck discharge area for accident prevention purposes.

In February 2014, Karelsky Okatysh launched production of new iron ore pellets with higher iron ore content. The Cherepovets Steel Mill, part of Severstal, will be their main customer.

Producing high quality iron ore pellets through separate ore processing is one of Severstal's key initiatives to improve production efficiency. The new technology for producing high quality iron ore pellets underwent testing in February and June 2013.

In the past we produced fluxed pellets with up to 63.2 per cent iron ore content, which fully satisfied our customers' needs, but we have since raised the iron content to 64.3 per cent. We began separately processing free-milling and refractory ores on February 1, and expect to be producing pellets with a 66 per cent iron content by the end of the year.

Using iron ore pellets with higher iron content will increase the profitability of our blast furnaces and help to decrease our raw material consumption. This will result in reduced pig iron production costs at CherMK. Using Karelsky Okatysh's new product we expect to save an additional 286 million rubles a year.

**Olkon's** cost structure should benefit from the commissioning of a high-angle conveyor. With that conveyor it will be able to reduce haul lengths at its largest pit, the Olenegorsky mine, by approximately five times. Even without this, the mine managed to control its cost through many efficiency initiatives in all mining processes, so that the cost of 1m<sup>3</sup> mined decreased by 11 per cent, as compared with 2012. Installation of wet screens allowed Olkon to stabilise its concentrate quality at a level of 65.7 per cent. Modernisation works at the plant are underway and should guarantee stable volume output during 2014 and 2015. A new dryer is to be commissioned before the end of the year, which will help to decrease fuel consumption. Apart from this Olkon focuses on cost control.

### Outlook and strategic priorities for 2014

Severstal Resources plans to focus on increasing the efficiency of its operations and production volumes, reducing costs and maintaining high safety and quality standards.

#### Cost control

Cost management continues to be one of Severstal Resources' key priorities. In recent years the company has been successful in keeping cash costs under control amid overall inflation in the global mining industry.

Our management initiatives range from volume growth and reduction of administrative cost to increasing self-sufficiency in key resources. For instance, in 2014, Vorkutaugol is launching a methane gas power plant at its Severnaya mine to secure 80 per cent self-sufficiency in electricity. This is a pioneer project for the Russian coal industry.

#### Brownfield development

Vorkutaugol has an extensive development programme designed to raise efficiencies and ensure further production growth. For instance, the ongoing modernisation of the main washing plant (currently considered a bottleneck in the production cycle) not only brings its technology up to date, but is also expected to increase its capacity by 50 per cent. The number of pieces of equipment at the plant will decrease by half, which will make maintenance much easier and increase availability.

In early 2014 Vorkutaugol will complete the construction of an inclined shaft at its Vorgashorskaya mine. This new shaft will expand the range of produced coking coal grades with the introduction of grade Zh. The new inclined shaft — which will be used to mine coal, transport employees and supplies to tunnels and raise mined rock — will be approximately 405 meters long; the optimum distance from the surface to the coal seam. Facilities for the new inclined shaft will include a shaft house, electric power substation, coal loading depot, and coal and timber warehouses. A railroad approximately six kilometres long will connect the Vorgashorskaya mine's main industrial site to the new inclined shaft's facilities.

Another large scale project is the inclined shaft from Zapolarnaya mine to the main washing plant. This project will allow us to bypass the currently inefficient skip-hoisting shaft and deliver all coal from the Zapolarnaya and Vorkutinskaya mines when the two are combined. This project is planned for completion by the end of 2014.

The new inclined shafts, which are being constructed using leading-edge technology, equipment and materials, will deliver coal extraction processes, including production efficiency and health and safety, in line with global best practices.

#### New mining licenses

We retain our commitment to vertical integration as the most effective business model for the company's long-term development, despite occasional price weaknesses in commodity markets.

Severstal Resources has a portfolio of licenses for promising mining greenfield projects in Russia and beyond, with launch dates close to 2020. Our approach to investing in and developing such project remains flexible and depending on market conditions, may involve options such as establishing partnerships. In 2014, we intend to spend around US\$21 million on all greenfield licenses.

Severstal's key license is the Putu Range iron ore project in Liberia. In 2008, we signed a mineral development agreement with the Government of Liberia for a 61.5 per cent interest in the Putu Range project, a 13km long iron rich ridge, 130km inland from the deep-water shoreline of eastern Liberia. Putu has estimated resources of 4.4 billion tonnes of iron ore in the existing pit, with an average estimated 34 per cent iron content as well as a high grade DSO resource of approximately 100 million tonnes. The development agreement is valid for 25 years from September 9 2010, and can be further extended. In 2012, we consolidated our stake in the project by acquiring an additional 38.5 per cent interest from Afferro Mining, thus obtaining full control in the project. A feasibility study is currently underway and is to be completed in Q2 2014.

#### New market segments – access to the rapidly-growing global metallic iron products market

Severstal has a 33.2 per cent stake in International Mineral Beneficiation Services (IMBS), a research and development company with headquarters in Johannesburg, South Africa. The company has developed the trade-marked Finesmelt technology, capable of transforming low-value fine and ultrafine iron ores, with the help of thermal coal, into a valuable metallic iron product. According to expert estimates, the global steel industry is annually consuming approximately 700 million tonnes of metallic iron products.

Together with IMBS, Severstal is close to launching the first commercial full-size 50 ktpa iron ore reduction unit in 2014. The site for the plant is at the Palabora copper deposit in the Republic of South Africa. The copper ore contains Fe as a by-product, which has been put to tailings for over 50 years. The Fe content of the tailings is quite high, at 58 per cent. If successful, IMBS and Severstal will add another nine units to reach the capacity of 0.5 mtpa.

#### Capex

In recent years, Severstal Resources has replaced all of its major equipment for both its underground operations and open pit mines. In 2013, its cash capital expenditure was US\$510 million.

Our 2014 capital expenditure target has been adjusted in light of the challenging market environment, to preserve positive free cash flow, while still ensuring we are progressing with company's key development and optimisation projects.

In 2014, total investments at Severstal Resources are planned to be approximately US\$404 million. Major initiatives will include the following:

**At Vorkutaugol:**

- Further production growth;
- Completion of the construction of the inclined shaft at the Zapolyarnaya mine in 2014;
- Completion of the construction of the inclined shaft at the Vorkashorskaya mine in 2014;
- Evaluation of a further upgrade of the washing plant.

**At Karelsky Okatysh:**

- Stripping ratio passed its peak in 2013 and will decline further;
- Added five mt of higher quality pellets through separate ore processing: fluxed pellets Fe goes up from 63.7 per cent to 66.0 per cent;
- Continued focus on cost improvements: costs of drilling & blasting, excavation, hauling will fall.

**At Olkon:**

- Stripping ratio passed its peak in 2013 and will decline further ;
- A high-angle conveyor and the new dryer will be launched in 2014 for further cost reduction.



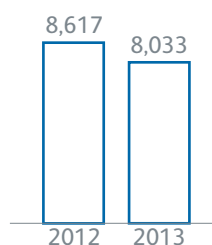


Severstal Russian Steel is a leading Russian steel producer, with a broad product mix, self-sufficiency in raw materials and an extensive distribution network. We focus on high value-added flat steel products and production of long products for construction and the downstream sales.

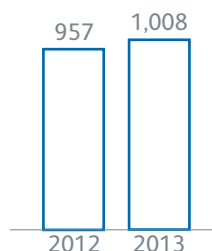
Our downstream assets include the production of large diameter pipes and metalware for machinery, as well as service centres and stamping facilities for exposed automotive parts. The division has the highest share of high value-added products among its domestic peers, while our flagship Cherepovets Steel Mill is one of the lowest-cost steel mills in the world.

Located in north-west Russia, the division's steel operations enjoy convenient rail access to the Company's mining operations and low-cost direct river access to the Baltic ports, as well as being well positioned to serve the industrial hubs around Saint-Petersburg and Moscow.

### Revenue in 2013 (US\$ million)



### EBITDA in 2013 (US\$ million)

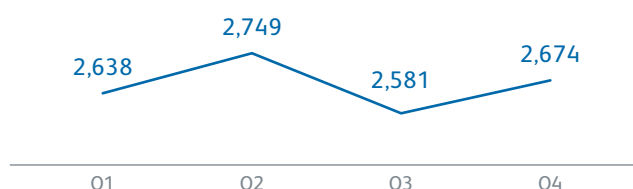


### Key 2013 highlights:

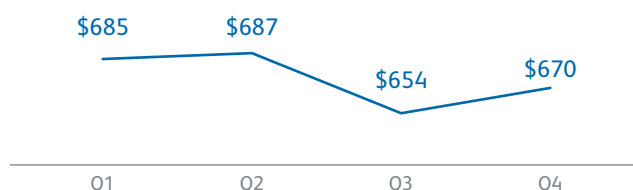
- In 2013, Russian steel consumption grew by an estimated 3.4 percent and reached 40.1 million tonnes.
- According to the World Steel Association (WCA), domestic steel production in Russia reached 69.4 million tonnes, 2.25 per cent lower than in 2012. Average capacity use in the domestic steel industry was around 80 per cent, almost at 2012 levels. Both world and local markets continued to suffer from overcapacity, so average steel prices and volumes declined during the year. To view the dynamics of our steel sales volumes and prices in 2013, please see the charts below.
- In 2013, Severstal Russian Steel sold a total of 10.6 million tonnes of steel products (excluding scrap), including 6.7 million tonnes to the domestic market. We managed to keep our utilization rate at around 95 per cent, above the local industry average of 80 per cent.
- In 2014, we are expecting approximately three per cent growth in Russian steel consumption. The key drivers will be construction and the oil and gas industry.

- In 2014, our strategy in Russia will be to focus on expanding into the most attractive market niches and to continue with operational improvements. The launch of the Balakovo mini-mill in Q2 2014 and the ramping up of new capacities, will give us a larger market share locally.

### Dynamics of Severstal Russian Steel's sales volumes in 2013 (excluding scrap), (in thousand tonnes)



### Dynamics of Severstal Russian Steel's average steel prices in 2013, US\$/t



### Key production facilities

#### Steel production

**Cherepovets Steel Mill** is one of the world's largest stand-alone integrated steelworks by capacity, and is an excellently located low-cost steel producer. It produces a wide range of flat and long products, including hot and cold-rolled flat products, galvanized and colour-coated products and long-steel applications. Rolling Mill 5000, located in Kolpino, near Saint-Petersburg, produces thick plate for large diameter pipes, ship and bridge building and other industries.

**Mini-Mill Balakovo** is a new generation mini-mill focused on the production of long products for the construction industry. The first batch of long products was rolled in December 2013. The launch of electric blast furnace are scheduled for 2014 and will have a capacity of one million tonnes of long products per year.

**Severstal-SMC-Kolpino** applies the primer to shipbuilding plates, produces semi-finished products for machinery and large fabricated sections for the construction industry. The company has been certified for compliance with international standards ISO 9001, ISO 14001 and OHSAS 18001. SMC-Kolpino has an automated steel product preservation line, distinguished by its shotblasting and protective prime coating, which are sheet metal processing methods designed to prevent corrosion. It also has an automated beam welding line, which produces welded structures such as T-bars and I-bars and automated plasma-beam cutting lines which conduct sheet metal plasma cutting, including those used for manufacturing welded structures.

**Severstal-Gonvarri-Kaluga Steel Centre** is designed to produce 170,000 tonnes of rolled metal products per year for the automotive and electrical industries.

**Gestamp-Severstal-Kaluga Stamping Facility** is equipped with a number of press lines and produces the all of the rolled steel pro-

ducts, from coils to car components, for international car manufacturers. It has an annual output of 13 million stamped parts and has the potential to expand production.

At the beginning of 2014, we launched the **Severstal-SMC-Vsevolozhsk** service centre, which is a joint venture with the Japanese giant Mitsui. This centre prepares high-quality CRC and galvanized steel, which will be further stamped at our joint venture with Gestamp in Vsevolozhsk. The service centre's capacity is 150,000 tonnes.

**Severtar**, a joint venture with Rutgers, based at Cherepovets Steel Mill plant, will produce vacuum pitch, technical oils and naphthalene.

### Pipe production

**Izhora Pipe Mill** in Kolpino specialises in manufacturing large diameter pipes from plate, which are produced at the nearby Kolpino Mill-5000. It has a production capacity of 600,000 tonnes of pipes per year, which are mainly used for oil & gas pipeline projects.

**TPZ-Sheksna** was launched in 2010, and is designed to produce up to 250,000 tonnes of electric-welded pipes of various diameters, thicknesses and lengths for the construction industry, as well as square and rectangular sections with different cross-sections. The plant uses semi-finished steel products made at Cherepovets Steel Mill.

### Metalware production

**Severstal-Metiz** manufactures more than 55,000 product types, including low-carbon and high-carbon wire rods, nails, cold-drawn steel, steel ropes, netting and fastenings. It has a maximum production capacity of more than 1.5 million tonnes per year. Severstal-Metiz comprises several subsidiaries: the Cherepovets site in north-west Russia, the Orel site in central Russia, the Volgograd site in the Povolzhie region, as well as subsidiaries in Italy (Redaelli) and Ukraine (Dneprometiz). The subsidiaries benefit from being located in developing markets with high concentrations of industrial and retail customers.

### Scrap collection and processing

Our scrap-processing facilities allow us to use a wide range of steel scrap. They are located in several Russian regions, and include special cutting and packaging lines for processing scrap and preparing it for use in smelting.

### Trading companies

Severstal Russian Steel's domestic sales are made to regional and other distributors, directly to end-users, or through **Trading House Severstal Invest**. Trading House Severstal Invest has a wide network of metal centres throughout the country. We conduct export sales principally through the subsidiary **Severstal Export GmbH**, as well as through **JSC Severstallat**, **LLC Severstal-Ukraine** and **ZAO SeverstalBel**. This distribution system minimises our reliance on intermediaries and reduces our distribution costs.

### Service companies

Our service companies maintain the production processes of Cherepovets Steel Mill, providing timely, high-quality equipment repair

services. They are organised into four types of activity: equipment repair services, machine building, other repair projects, and design and development projects.

**Severstal Promservice** is one of the largest repair companies within Severstal Russian Steel. It provides services to Severstal and third-party clients. Severstal Promservice provides construction and equipment assembly services, manufactures and repairs energy equipment, produces steel sections and automotive systems and carries out diagnostics and land surveying.

### Operational and financial results

Severstal Russian Steel is one of Severstal's largest production units. In 2013, the division produced approximately 68 per cent of Severstal's total crude steel output, 82 per cent of total hot metal production and accounted for 60 per cent of total revenues excluding inter-segment revenue.

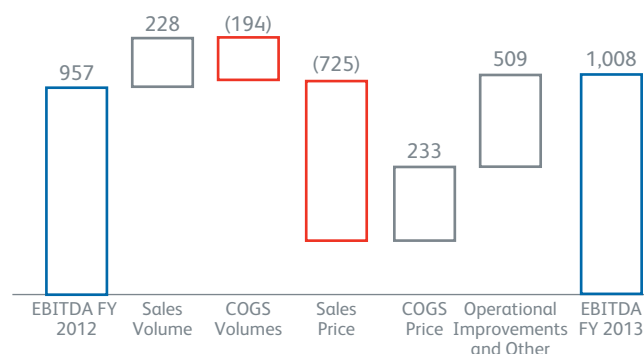
Despite worsening conditions in its target markets in 2013, Severstal Russian Steel increased its steel shipments by 3.4 per cent to 10.6 million tonnes (excluding scrap). The company increased its sales of high value-added products such as colour-coated sheet by 21.7 per cent year on year, and decreased its shipments of slabs by 54.9 per cent year on year. This partially offset the steel price smoothing during the year, with the average selling price going down by 10.3 per cent to US\$674 per tonne in 2013. As a result, the division's revenue decreased by 6.8 per cent year on year to US\$8,033 million compared with US\$8,617 million the previous year.

### Key performance indicators

Despite the reduction in the top line figure, Severstal Russian Steel was able to increase its EBITDA for 2013 by 5.3 per cent to US\$1,008 million from US\$957 million. This was thanks to lower input prices as well as cost reductions at the production and administrative levels. The EBITDA margin was also up by 1.4 percentage points year on year to 12.5 per cent. In 2013 we sold 48 per cent of our portfolio as high value added products, up two percentage points from 46 per cent in 2012. Sales volume to the domestic market increased to 63 percent compared with 60 per cent a year ago.

In 2013, Severstal Russian Steel's average headcount totalled 43,316.

### EBITDA drivers in 2013, US\$m



Key performance indicators	2013	2012	Change %
Revenue (US\$ million)	<b>8,032.9</b>	8,617.1	(6.8%)
Gross profit (US\$ million)	<b>1,810.3</b>	1,905.7	(5.0%)
Profit from operations (US\$ million)	<b>653.6</b>	613.4	6.6%
Operating margin (%)	<b>8.1%</b>	7.1%	n/a
EBITDA (US\$ million)	<b>1,007.6</b>	956.9	5.3%
EBITDA per tonne (US\$/tonne)	<b>94.7</b>	92.9	1.9%
EBITDA margin (%)	<b>12.5%</b>	11.1%	n/a
Average steel product price (US\$/tonne)	<b>674</b>	751	(10.3%)
Hot-rolled strip and plate (US\$/tonne)	<b>550</b>	613	(10.3%)
Large diameter pipes (US\$ /tonne)	<b>1 585</b>	1,760	(9.9%)
Cold-rolled flat products (US\$ /tonne)	<b>607</b>	710	(14.5%)
Galvanized and other metallic coated sheet (US\$/tonne)	<b>822</b>	948	(13.3%)
Colour-coated sheet (US\$/tonne)	<b>1,060</b>	1,165	(9.0%)
Metalware products (US\$/tonne)	<b>1,065</b>	1,170	(9.0%)
Long products (US\$/tonne)	<b>589</b>	669	(12.0%)
Semi-finished products (US\$/tonne)	<b>445</b>	527	(15.6%)
Other tubes and pipes, formed shapes (US\$/tonne)	<b>686</b>	759	(9.6%)
Average scrap price (US\$/tonne)	<b>281</b>	304	(7.6%)

## Production results

In 2013, the division produced 8.8 million tonnes of hot metal (4 % higher than in 2012), and 10.7 million tonnes of crude steel (2 % more than in 2012).

Production volumes, thousand tonnes	2013	2012	Change %
Hot metal	<b>8,759</b>	8,407	4%
Crude steel			
<i>Basic oxygen furnaces</i>	<b>9,410</b>	9,377	0%
<i>Electric arc furnaces</i>	<b>1,302</b>	1,175	11%
Total crude steel	<b>10,712</b>	10,552	2%

## Sales results

Steel prices increased at the beginning of 2013 on the back of seasonal steel and raw materials inventories restocking. The global economic environment then deteriorated, leading to a low level of demand in our export markets, especially in Europe, and steel products sales volumes started declining. Sales volumes grew again in the fourth quarter due to a seasonal activity peak. Overall Severstal Russian Steel sales totalled 10,685 thousand tonnes of steel products in 2013, which is a 3.2 per cent increase year on year.

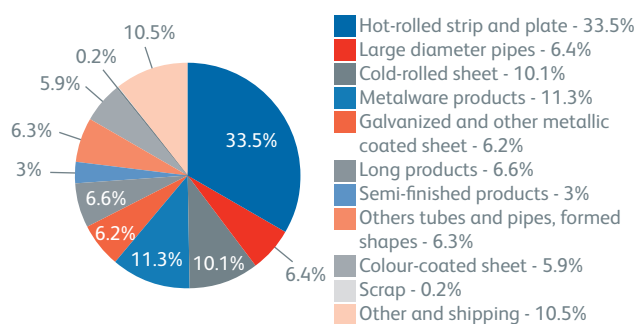
Against the decrease in prices due to lower demand, Severstal Russian Steel managed to improve its sales portfolio by increasing the share of high value added products like colour-coated steel.

## Sales by product

In 2013, sales of hot-rolled strip and plate accounted for 45.8 per cent of overall sales volumes and 33.5 per cent of revenue, cold-rolled sheet for 12.5 per cent of sales volume and 10.1 per cent of revenue, semi-finished products for 5 per cent of sales volume and 3 per cent of revenue, long products – 8.5 per cent of sales volume and 6.6 per cent of revenue, metalware products for 8.0 per cent of sales volume and 11.3 per cent of revenue, and coated sheet (galvanized and colour-coated) for 9.9 per cent of sales volume and 12.1 per cent of revenue, large diameter pipes for 3 per cent of sales volume and 6.4 per cent of revenue. Other steel products such as tubes, pipes and scrap, accounted for 7.3 per cent of overall sales volume and 6.5 per cent of revenue. Other revenues and shipping reached 10.5 per cent of total revenues.



## Revenue breakdown by key products in 2013

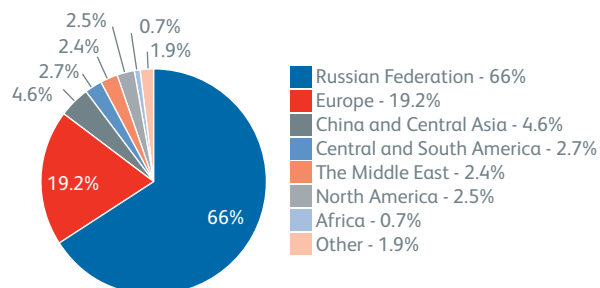


	2013		2012		Change, %	
Sales by products	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
Hot-rolled strip and plate	4,893	2,689.1	4,482	2,747.6	9.2%	(2.1%)
Large diameter pipes	325	515.2	321	564.9	1.2%	(8.8%)
Cold-rolled sheet	1,334	809.5	1,292	917.7	3.3%	(11.8%)
Metalware products	856	911.9	829	969.9	3.3%	(6.0%)
Galvanized and other metallic coated sheet	609	500.7	604	572.6	0.8%	(12.6%)
Long products	904	532.1	831	556.0	8.8%	(4.3%)
Semi-finished products	533	237.3	932	491.6	(42.8%)	(51.7%)
Other tubes and pipes, formed shapes	740	507.6	636	483.0	16.4%	5.1%
Colour-coated sheet	448	474.5	368	428.6	21.7%	10.7%
Scrap	43	12.1	57	17.3	(24.6%)	(30.1%)
Total steel products	10,685	7,190.0	10,352	7,749.2	3.2%	(7.2%)
Other and shipping	-	842.9	-	867.9	n/a	(2.9%)
Total sales by products	10,685	8,032.9	10,352	8,617.1	3.2%	(6.8%)
Inter-segment transactions	(156)	(82.6)	(155)	(95.5)	0.8%	(13.5%)

### Sales by market

Severstal Russian Steel sells its products on both domestic and international markets, with an increasing focus on the Russian market.

## Severstal Russian Steel's revenue by region, 2013



### The Russian market

The Division continues to regard Russia as its most important market. Its main domestic customers include pipe mills and construction companies, machinery and automotive clients. The share of sales volume to the Russian market grew to 63 per cent in 2013 from 60 per cent in 2012.

In 2014, Severstal Russian Steel aims to further increase its share of domestic sales, and we expect that growth will be driven primarily by increased sales to the construction and automotive industries.

	2013		2012		Change, %	
<b>Domestic sales</b>	<b>Thousand tonnes</b>	<b>US\$ million</b>	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
Hot-rolled strip and plate	2,670	1,512.9	2,199	1,433.5	21.4%	5.5%
Large diameter pipes	262	437.2	298	541.0	(12.1%)	(19.2%)
Cold-rolled sheet	775	457.9	773	550.9	0.3%	(16.9%)
Metalware products	565	566.1	568	629.2	(0.5%)	(10.0%)
Galvanized and other metallic coated sheet	493	398.7	494	469.0	(0.2%)	(15.0%)
Long products	845	495.0	758	507.3	11.5%	(2.4%)
Semi-finished products	78	41.1	188	123.8	(58.5%)	(66.8%)
Other tubes and pipes, formed shapes	588	395.8	504	380.2	16.7%	4.1%
Colour-coated sheet	406	429.3	337	392.4	20.5%	9.4%
Scrap	43	12.1	55	16.6	(21.8%)	(27.1%)
Total steel products	6,725	4,746.1	6,174	5,043.9	8.9%	(5.9%)
Other and shipping	-	556.1	-	551.4	n/a	0.9%
Total sales by products	6,725	5,302.2	6,174	5,595.3	8.9%	(5.2%)
Inter-segment transactions	(23)	(25.2)	(19)	(23.2)	21.1%	8.6%

## Export markets

Severstal Russian Steel benefits from its proximity to steel export routes. Europe accounts for more than 56.5 per cent of the division's total export sales. In 2013, Severstal increased its sales to the Baltic countries, Northern and Central Europe. We expect those export markets to continue to perform well in 2014 as economic indicators improve.

In 2013, export sales of steel products decreased by 5.2 per cent in terms of volume, and by 9.6 per cent in terms of revenue, compared with 2012.

The largest share of export sales volumes came from hot-rolled strip and plate products (56.1 percent of total steel products), cold-rolled sheet (14.1 per cent of total steel products) and semi-finished products (11.5 per cent of total steel products).

In 2013, export prices for almost all product groups decreased because of decline in demand due to global economic downturn.

	2013		2012		Change, %	
<b>Export sales</b>	<b>Thousand tonnes</b>	<b>US\$ million</b>	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
Hot-rolled strip and plate	2,223	1,176.2	2,283	1,314.1	(2.6%)	(10.5%)
Large diameter pipes	63	78.0	23	23.9	173.9%	226.4%
Cold-rolled sheet	559	351.6	519	366.8	7.7%	(4.1%)
Metalware products	291	345.8	261	340.7	11.5%	1.5%
Galvanized and other metallic coated sheet	116	102.0	110	103.6	5.5%	(1.5%)
Long products	59	37.1	73	48.7	(19.2%)	(23.8%)
Semi-finished products	455	196.2	744	367.8	(38.8%)	(46.7%)
Other tubes and pipes, formed shapes	152	111.8	132	102.8	15.2%	8.8%
Colour-coated sheet	42	45.2	31	36.2	35.5%	24.9%
Scrap	-	-	2	0.7	(100.0%)	(100.0%)
Total steel products	3,960	2,443.9	4,178	2,705.3	(5.2%)	(9.7%)
Other and shipping	-	286.8	-	316.5	n/a	(9.4%)
Total sales by products	3,960	2,730.7	4,178	3,021.8	(5.2%)	(9.6%)
Inter-segment transactions	(133)	(57.4)	(136)	(72.3)	(2.1%)	(20.6%)

## Sales by region

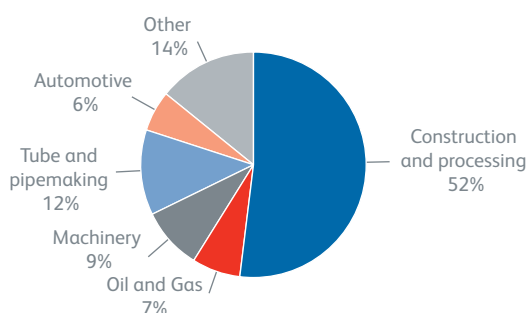
Severstal Russian Steel is building long-term strategic relationships with customers in the CIS and EU. Thanks to our low-cost base, we can deliver to remote regions and supply products to them on the spot. The exceptions to this are the tube and pipe, and automotive industries. We prioritise sales to Russian customers, as they are strategically important. In 2013, the main export regions were Europe (56.5% of export revenue), Asia (19.0% of export revenue) and Central and South America (8.1% of export revenue). Sales to other regions amounted to 16.4% of export sales. In 2013, the division's primary focus was Europe and the CIS, which together accounted for 67.4% of export revenue.

## Sales by industry

On the domestic market, Severstal Russian Steel focuses on selling its products to the construction, and oil and gas industries, pipe and automotive producers, machinery builders and steel service centers. On export, sales are primarily to the processing and construction industries, including re-rollers of slabs, hot-rolled and cold-rolled coils.

In 2013, our revenue coming from the construction and processing industries accounted for 52 per cent of total sales, while sales to the oil and gas sector accounted for 6.7 per cent, machinery building – accounted for 9.1 per cent, and tube- and pipe making accounted for 12.3 per cent.

## Severstal Russian Steel's revenue by industry, 2013



## Costs:

- We consistently work to maintain our leading cost position through labour and energy productivity and operational enhancements.
- In 2013, the Division's cost of sales decreased by US\$489 million from 2012, a figure that takes into account the fact that sales volumes were higher.
- This cost efficiency was mainly due to the decrease in raw materials and energy prices (US\$233 million), and the effect of the Severstal's Business System (US\$130 million).

	2013		2012		
Cost of sales structure	US\$ million	% of total	US\$ million	% of total	Change %
Materials					
Scrap metal	763.8	12.3%	866.3	12.9%	(11.8%)
Coal	789.4	12.7%	862.3	12.8%	(8.5%)
Iron ore	775.2	12.5%	817.9	12.2%	(5.2%)
Ferroalloys and nonferrous metals	350.2	5.6%	406.6	6.1%	(13.9%)
Pellets	541.1	8.7%	542.7	8.1%	(0.3%)
Coke	43.2	0.7%	96.0	1.4%	(55.0%)
Other materials	774.0	12.4%	874.5	13.0%	(11.5%)
Total materials	4,036.9	64.9%	4,466.3	66.5%	(9.6%)
Energy					
Electric power	219.3	3.5%	183.4	2.7%	19.6%
Gas	344.7	5.5%	297.7	4.4%	15.8%
Other energy resources	65.2	1.1%	58.3	0.9%	11.8%
Total energy	629.2	10.1%	539.4	8.0%	16.6%
Staff costs	799.7	12.9%	826.1	12.3%	(3.2%)
Depreciation and amortization	326.8	5.3%	294.2	4.4%	11.1%
Services	286.1	4.6%	324.4	4.8%	(11.8%)
Other	143.9	2.2%	261.0	4.0%	(44.9%)
Total	6,222.6	100.0%	6,711.4	100.0%	(7.3%)



### Key Business System's achievements at the Russian Steel Division in 2013:

- Purchasing and logistics efficiency – a US\$26 million gain;
- Administrative cost optimisation - a US\$46 million gain mainly due to organisational restructuring aimed at reducing the number of managerial levels within the company and streamlining its divisional structure;
- Continuous improvement – a US\$171 million gain. Key projects include:
  - 1) Technological initiatives aimed at reducing iron and BOF slab cost.
  - 2) Rolling process yield improvement.
  - 3) Production output growth and the removal of bottlenecks (sinter plant, hot rolling, long products facilities).
  - 4) Reduction in power utilities cost and higher volumes of power generation.

### Operational development in 2013

The Severstal Russian Steel capital expenditure programme is designed to increase productivity and efficiency, improve environmental protection, replace and refurbish major equipment, and develop the Division's product mix further to produce higher-quality and value-added products, including galvanized steel and cold-rolled products. For example, at the beginning of 2013 we launched Coke Battery #7, giving us complete self-sufficiency in coke.

In 2013 the division's cash capital expenditure was US\$574 million.

### Our key development projects:

#### For the construction industry:

#### *Diversification into the long products market and launch of steel brands*

Severstal intends to capitalise on the fast-growing Russian construction market. In 2013, the Russian Steel Division's key asset, the Cherepovets Steel Mill, achieved maximum volumes of long products production. The plant made 1,258,000 tons of long products, the highest production volume in the recent five years and a 14 per cent increase in production since 2012. This increase was delivered thanks to the organisational and technical initiatives that we introduced to increase billet production for long products and the performance of section mills, as well as the hard work, skill and dedication of our personnel.

In 2013, the Cherepovets Steel Mill saw a 27 percent or 162,000 ton increase in shipments of long products to the construction industry, compared with 2012. In 2014, we will continue delivering long products to the Western High-Speed Diameter, one of the largest infrastructure projects currently under development. Fittings for the road's construction are being delivered by the St. Petersburg branch of ZAO TD Severstal-Invest, which is part of the Distribution Network of Severstal's Russian Steel division. Shipments began in August 2013 and will continue until February 2015.

When we launch the Balakovo mini-mill in the Saratov region in 2014, our total long products capacity in Russia will exceed 2.1 million tonnes a year. To date, we have installed all technological equipment, and the hot-end process and rolling lines assembly works are underway. The launch of the mill is scheduled for Q2 2014.

Balakovo is close to clients, in a scrap-rich area, and close to the sources of cheap energy. It will expand our presence on a promising market and diversify our product mix.

In 2013, the Cherepovets Steel Mill delivered record production of galvanized color-coated steel – around 450 thousand tonnes, an increase of 22 per cent compared with 2012. The output increase is due to a number of factors, including high-quality production using leading-edge technology, the use of high-quality zinc coating and the company's cooperation with top European polymer producers. The launch of the new range of products under the Steel Silk brand this year has also helped us to increase sales. Steel Silk is a specialized galvanized colour-coated roofing metal and Severstal is offering a warranty period of up to 25 years for this type of coating for the first time.

The other steel brand we are marketing is called ArmaNorma, which represents high-quality rebar for construction.

### Steel Solutions

Steel Solutions takes us into a new business area – designing and constructing pre-engineered buildings from steel components. This approach enables homes to be built 1.5 times quicker and 10 per cent cheaper than traditional construction technology. The homes are also more energy-efficient. We have signed our first contract and shipments have started. In 2012, we acquired Orel Metal Plant, which after upgrades and modernization will produce all steel products for the Steel Solutions' projects.

#### For the automotive, "white goods" and small machinery sectors:

#### *Growing shipments to the car industry*

Severstal is a leading provider for international automotive producers operating in Russia. High quality steel products, technical support services and new types of steel developed in cooperation with our customers provide us a unique competitive advantage in this market segment.

Severstal's international automotive clients operating in Russia include Renault-Nissan, HYUNDAI-KIA, Volkswagen, GM and PSA Peugeot Citroen. We have also increased deliveries of hot dip galvanized rolled products to GAZ Group, Russia's largest automotive engineering group.

In 2013, Cherepovets Steel Mill increased its sales to the international automotive manufacturers operating in Russia by 14.5 per cent. Severstal-Gonvarri-Kaluga, a joint venture with Gonvarri, is investing in expanding its production capacity. The group has launched an extra line to produce die-cut blanks as well as building an additional 6,350m<sup>2</sup> production area, and increasing the rolled steel storage area by 4,000m<sup>2</sup> to 30,000 tonnes of rolled steel storage capacity. Capacity at Severstal-Gonvarri-Kaluga will increase by 72,000 tonnes per year as a result of this investment. The expansion will meet growing demand from the automotive sector, particularly at Gestamp-Severstal-Kaluga, where increased demand has been triggered by the expansion of Volkswagen production in the region.

At the beginning of 2014 we launched the Severstal-SMC-Vsevolozhsk, steel service center which is our joint-venture with the Japanese giant Mitsui. SMC already started commercial sales to the first customers from the household appliances sector. The first trial deliveries to the automotive industry are scheduled for Q1 2014.

Blank parts produced at SMC will be delivered to Gestamp-Severstal-Vsevolozhsk (a joint venture with Gestamp) for the production of stamped car body parts. The end customers of these products are expected to be the major international automotive producers operating in Russia's North-Western region such as Ford, Nissan, Toyota and General Motors. The blank parts will also be delivered to machine-building companies.

Two more lines will be launched in 2014 to produce welded blanks and cut-to-length line (mini-CTL) from feed metal 0.4 mm to 2.3 mm thick. Initial trial runs are scheduled for Q1 2014 with SMC-Vsevolozhsk's production expected to reach approximately 150 000 tonnes at full capacity.

Dmitry Goroshkov, Marketing and Sales Director of Severstal's Russian Steel Division, commented: "Approximately 60% of SMC-Vsevolozhsk products will be delivered to autoproducers, with the remainder sold to construction and machine building companies and the household appliances sector."

In October 2013, the Cherepovets Steel Mill entered into an agreement to supply rolled steel for the production of Nissan's Almera model. Cold rolled steel produced by Severstal will be used in the production of both the internal and external parts of Nissan Almera cars. Deliveries of rolled steel under this agreement began in July 2013 and will continue until March 2014. Nissan Almera cars are produced in Togliatti, Russia's Samara region, on the BO production line, built by Renault-Nissan and AvtoVAZ Alliance.

In January 2014, Severstal was approved to supply Ford Sollers with rolled steel for 30 car parts used in various Ford models to be manufactured in Russia in 2014. Rolled steel will be supplied for cutting face and non-face blank parts stamped at Gestamp-Severstal-Vsevolozhsk (a joint venture with Gestamp), OOO Piterform (part of Magna Cosma International), and at Coskunoz, a Turkish company located in Tatarstan.

Dmitry Goroshkov, Marketing and Sales Director of Severstal's Russian Steel division, commented: "Increasing our supply to Ford Sollers is a tribute to the high quality of our products and our technical support service for steel orders throughout the production chain, from rolled steel manufacturing to blank part stamping. This approval confirms our leading position as a supplier for international automobile companies operating in Russia."

Severstal has the technical competence to increase shipments to the mechanical engineering industry. We offer our customers new products with a broad range of applications and have developed new high-tensile steels with higher performance indicators for mechanical engineering. In 2013, Cherepovets Steel Mill increased its shipments to the Russian engineering industry by almost 40,000 tonnes. Shipment growth was mainly due to increased deliveries to companies producing appliances and packaging.

In 2013, the Company developed new technology for the production of S500MC grade steel (similar to Swedish DOMEX steel) used in truck frame manufacture and characterised by its high strength and good weldability. The first preproduction S600MC and S700MC grade steel batches have been produced. The Company has also developed two innovative grades of high-tensile heavy-gauge CBC-690 and S690QL steel (similar to Swedish WELDOX steel) which reduced the metal content and cost of the final product.

#### For the heavy machinery sector:

In 2013, we increased sales volumes of special steel to the ship-building industry by 11 %. Special cold-resistant steel grades AK and AB are used primarily for making navy vessels.

#### For the oil & gas industry:

Severstal delivered 1,800,000 tonnes of rolled steel to Russia's pipe manufacturers in 2013, a 10 per cent increase compared with 2012. The growth was mainly due to increased shipments to manufacturers of medium and small diameter water and gas pipes used in the construction industry. Rolled steel manufactured by the Cherepovets Steel Mill was used extensively for major Russian infrastructure projects during this period.

Severstal partnered with pipe manufacturers on major oil and gas pipeline construction projects in the Southern Corridor, the Arctic Circle-Purpe pipeline and the Central Asia-China gas pipeline.

We take a proactive approach by consistently offering the latest engineering solutions to Russia's pipe-makers to improve pipe performance and meet the requirements of their customers. This year the Russian Steel division's technical development and quality centre will continue working on a high-strength anti-corrosive coating for pipes used in the oil and gas industry.

In January 2014, Severstal won a tender to supply about 100 thousand tonnes of 813 mm diameter pipes for the South Stream Offshore Pipeline. The pipes are to be manufactured by Izhora Pipe Mill, a part of Severstal's Russian Steel division.

Sergey Toropov, CEO of Severstal's Russian Steel division, commented: "We have worked very hard to be a part of this hugely important project, which has served as a driving force for further innovation and the continued development of our production. In order to take part in the tender we have successfully implemented an ambitious investment program on our slab-plates-pipe production chain."



The combined efforts of specialists from the Russian Steel division's Technical development and Quality Centre, plate rolling shop No.3 and Izhora Pipe Mill allowed Severstal to develop the market-leading technologies required to produce DNV450 SFPU grade plates with 39.0 mm wall thickness for further production of pipes.

Severstal's investment into its large diameter pipes production at Izhora Pipe Mill amounted to 1.3 billion rubles. More than ten projects were implemented as part of this investment program, primarily aimed at improving product quality and product mix. Amongst these investment projects are the commissioning of a new finishing press and the installation of an automated system for measuring pipe geometrics.

Plates, pipes, external and internal coatings manufactured at Severstal's facilities have successfully passed all of South Stream Transport B.V.'s necessary testing, confirming Severstal's ability to meet the project's complex technical and technological requirements.

### Sustainability

Investments in environmental activities in 2013 amounted to 2.39 billion rubles (US\$75 million), 2 times more compared to 2012. The construction of a new system for capturing fugitive emissions from the steelmaking process is in progress according to plan. The investment, totalling more than 3 billion rubles (US\$96 million), is scheduled to be completed by the end of 2014.

Among major programmes continued this year were an upgrade of the gas cleaning of shaft furnace. No. 1 in the steelmaking process, installation of a system for cleaning aspiration air in the sintering process and others. We implemented a total of 11 projects aimed at minimising our impact on the environment at Cherepovets Steel Mill. Two of projects were put into operation in 2013.



### Outlook and strategic priorities for 2014

The division's 2014 target CAPEX is US\$487 million.

Major development projects include the following:

- Launch of the Balakovo mini-mill;
- Revamping of our cold rolling mill at the Cherepovets Steel Mill (the 4-stand cold rolling mill);
- Upgrade of the Hot Rolling Mill 2000 at the Cherepovets Steel Mill;
- Completion of a specialised service centre near St. Petersburg;
- Continuing reconstruction and modernization of the Orel Steel Plant (Severstal Steel Solutions).
- In 2014 we will continue investing in emissions reduction programmes at the Cherepovets Steel Mill.

### Details of selected projects:

#### Upgrade of the 4-stand Cold Rolling Mill at the Cherepovets Steel Mill

This project will increase the mill's annual production capacity by approximately 200 thousand tonnes and raise the annual output of cold rolled products to around three million tonnes. The upgraded equipment will produce cold rolled steel sheet with a width of up to 1,850 mm, compared to the current maximum width of 1,420mm.

We are investing more than 2 billion rubles in this project, which we plan to complete within two years.

#### Upgrade of the Hot Rolling Mill 2000 at the Cherepovets Steel Mill

We are launching a project to upgrade Cherepovets Hot Rolling Mill 2000. The upgrade will improve product quality and enhance operational efficiency and reliability. Mill 2000's roughing stand drive will be refurbished and most drives will be replaced. In addition, Severstal plans to upgrade the mill's roughing stand's automation system. A leading edge automated system will be installed to replace the current control system. The new automation system will operate cutting-edge rolling techniques and will connect the roughing stand to modern control systems for the adjoining furnace, finishing train, and disposal sections. Mill 2000 will be transformed into a single integrated facility better able to meet the challenges of modern manufacturing.

Approximately 810 mln rubles will be invested in this project. 80 per cent of the roughing stand's electronic equipment at Mill 2000 will be upgraded. This will reduce equipment downtime and cut down on maintenance and repair costs.

#### Installation of filters to reduce air emissions

In 2013, Severstal continued construction and assembly work to replace converters in the stands' main and auxiliary drives. This work will not have an impact on production and will continue into 2014. The switchover to the new control system is expected to take place during Mill 2000's overhaul in 2014.

The project commenced in Q1 2013. Siemens is supplying the core equipment while the main contractor is OAO Domnaremont and the designer is OOO Severstal-Project (both are subsidiaries within Severstal's Russian Steel division).





Severstal International (also known as Severstal North America) is one of the largest steelmakers in the United States specialising in the next generation of high quality, flat-rolled, carbon steel products in a wide range of grades, chemistries, gauges and widths, including:

- Hot rolled
- Cold rolled
- Hot-dip galvanized (and galvannealed and culvert)

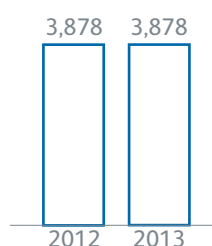
We serve customers in more than 20 markets including the automotive, appliance, construction, container, pipe and tubing, distribution, converter and service centre industries. Other applications for our innovative, high-performance steel solutions include ceiling grids, grain systems, HVAC equipment, machinery, metal buildings, and water heaters.

Our modernised, fully integrated operations and our corporate headquarters are located in Dearborn, Michigan. In addition to this, a new, state-of-the-art electric arc furnace operation in Columbus, Mississippi serves the growing demand for steel in the southeastern United States. Severstal North America also operates several joint ventures manufacturing value-added coated products and coke.

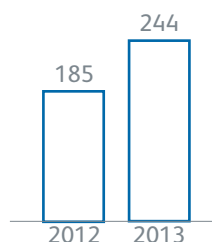
By investing heavily in technology at all our facilities - more than US\$3 billion over the last few years - we are reinventing the future of steel in North America, accelerating innovation, increasing operational excellence and enhancing our quality and service capabilities.

Along with exceptional product quality, we are committed to the protection of both human health and the environment. Our facilities have earned us TS 16949, OHSAS 18001 and ISO 14001 certifications, which are the international standards for quality, health and safety and environmental management systems respectively.

## Revenue in 2013 (US\$ million)



## EBITDA in 2013 (US\$ million)



## Key 2013 commercial and market highlights:

- In 2013, demand for light flat rolled steel was estimated at 66.6 million tonnes, a slight decline of 1.9 per cent from 2012's demand for 67.9 million tonnes. Industry experts forecast that the demand for light flat rolled products in NAFTA will grow by 4.8 per cent in 2014, driven by a rebound in consumption in the U.S., Canada, and Mexico.
- U.S. capacity use was 76.7 per cent in 2013, slightly higher than the 75.7 per cent reported in 2012.
- The market continued to suffer from overcapacity and imports, both of which had a negative impact on steel prices, and both volume and capacity utilisation declined throughout most of the year. Including preliminary census data, flat rolled imports finished the year 4.3 per cent higher than in 2012.
- Severstal shipped 4.7 million tonnes in 2013, totaling a market share of 7.1 per cent of all NAFTA shipments. We increased our annual shipments by four per cent compared with 2012. Severstal's utilisation rate is approximately 83 per cent above the industry's 2013 average of 76.7 per cent.
- Severstal's key market sectors include automotive, energy (oil & gas) and service centres. Dearborn shipments are heavily focused on the automotive industry. Total Severstal shipments to this sector reached 1.3 million tonnes in 2013.
- Production of light vehicles finished strongly in 2013, with NAFTA production up 4.9 per cent to 16.2 million units, led by gains of 7.6 per cent in the US, 2.2 per cent in Mexico and a decrease of 3.2 per cent in Canada. 2014 NAFTA automotive production is projected to increase by four per cent over 2013 to 16.8 million units.
- Overall, construction non-seasonally adjusted spending in 2013 finished the year 4.8 per cent higher than 2012, with residential construction increasing by 17.5 per cent and non-residential decreasing by 1.5 per cent. The AIA (American Institute of Architects) Architecture Billings Index slowed towards the end of 2013 but finished the year with an average of 52.1. The index was above 50 for nine months out of the year, indicating future construction growth. As residential activity in the U.S. continues to improve, we expect to see increased demand in this sector.
- The energy market showed positive signs in 2013. Oil prices remained relatively stable and natural gas prices increased heavily. If natural gas prices continue to increase in 2014 we could see gains in exploration, which will lead to more steel demand for the production of energy pipe and tube products.
- Industry steel selling prices declined by 4.4 per cent in 2013 with CRU Hot Roll coil prices averaging US\$692 per tonne for the year. Prices declined throughout the first half of 2013 but rebounded strongly in the second half of the year, supported by outages and improvements in demand. Steel selling prices are expected to rise slightly in 2014 due to improvements in demand and inventory building.
- Our shipments continue to be focused on the U.S. with only Mexico accounting for any significant export shipments. Our mini-mill in Columbus, Mississippi, is benefiting from increased industrial activity in Mexico, and continues to obtain auto quality compliance certificates, granting us access to a wider range of automotive customers.

- Our priority for 2014 is to continue to focus on increasing efficiency in our operations. We continue to analyse our sales and purchasing practices to reduce costs and optimise margins, as well as increasing the sales of high value-added products.

### Dynamics of Severstal International's sales volumes in 2013, (in thousand tonnes)



### Dynamics of Severstal International's average steel price\* in 2013, \$/T



\*Steel price includes all steel products, based on mixed price terms, resulting ex works.

### Key production facilities

The division's steel production business comprises the following assets:

#### Steel production

**Severstal Columbus** is one of the most technologically advanced steel-making facilities in North America. Commissioned in August 2007, it is the newest mini-mill in North America and the only EAF compact strip process plant in the world designed to make exposed automotive steels. The mill produces high-quality flat-rolled products, including hot-rolled bands, hot-rolled processed sheet, cold-rolled full hard and cold-rolled fully processed sheet, and hot-dipped galvanised sheet. The mill is strategically located in Columbus, Mississippi, where there is outstanding access to rail, truck and water routes, enabling us to deliver product faster and more economically than other steelmakers throughout the growing southeastern US manufacturing region and into Mexico. The site is designed to allow for additional processing operations, which are being developed.

**Severstal Dearborn**, in Michigan, dates back to the earliest days of automotive manufacturing. It is strategically located close to major automotive customers, the Great Lakes waterways and three large railroads in North America, all of which provide access to raw materials and customers. Dearborn's products include hot-rolled, cold-rolled and galvanised steel, as well as high-strength, high-carbon and low-alloy steel, largely targeted at the automotive industry. Other markets include pipe and tubing, strip re-rollers and galvanisers, service centres, construction, appliances and furniture.

### Joint ventures and associates

We have a number of joint ventures and associates with local players on the US market. These have two main aims:

- To ensure self sufficiency in raw materials;
- To expand our manufacturing of value-added products. Our joint ventures help us to extend our client outreach and minimise our capital exposure.

#### Coke sufficiency:

**Mountain State Carbon LLC** is a 50-50 joint venture with Renco Group. It has four coke oven batteries (three three-metre and one six-metre refurbished in 2006) providing high-quality coke for steel-making operations. Mountain State Carbon meets approximately 60 per cent of Dearborn's coke needs.

#### Extending the value chain:

**Double Eagle Steel Coating Company** is a 50:50 joint venture with United States Steel Corporation. Adjacent to Severstal Dearborn, it is the world's largest electro-galvanizing line, producing premium-quality galvanized sheet steel primarily for automotive customers. The plant has a production capacity of 789 thousand tonnes a year, approximately half of which is dedicated to Dearborn.

**Spartan Steel Coating LLC** is an associate with Worthington Steel of Michigan – Severstal Dearborn owns 48 per cent and supplies the steel sheet used as substrate. Located in Monroe, Michigan, it produces hot-dip galvanized sheet steel primarily for the automotive and service centre industries. It has a production capacity of 544 thousand tonnes a year, about 80 per cent of which is dedicated to Dearborn.

**Mississippi Steel Processing LLC (MSP)**, of which Severstal Columbus owns 20 per cent, is a processor of heavy gauge, hot roll and hot roll pickle and oil products. It is a joint venture with Merlo Holdings Inc (40 per cent) and Layhill Ventures LLC (40 per cent). Construction was completed and production began in the first quarter of 2011, and 2013 output was 252 thousand tonnes.

### Key Performance Indicators

In 2013, Severstal International demonstrated a very solid earnings performance. It delivered its highest EBITDA for the last three years despite continuously falling steel prices.

2013 steel products shipments were up 4.2 per cent year on year driven by stronger sales of galvanised and CRC products. Higher volumes helped to offset weaker realised prices and kept FY2013 revenue flat year on year at US\$3,878 million. By focusing on operational and sales improvements the division was able to significantly improve its earnings, delivering FY2013 EBITDA of US\$244 million, which was 31.9 per cent higher year on year FY12: \$185 million). FY2013 EBITDA margin went up to 6.3 per cent (FY2012: 4.8%), while EBITDA per tonne increased year on year to US\$52 from US\$41 in FY2012.

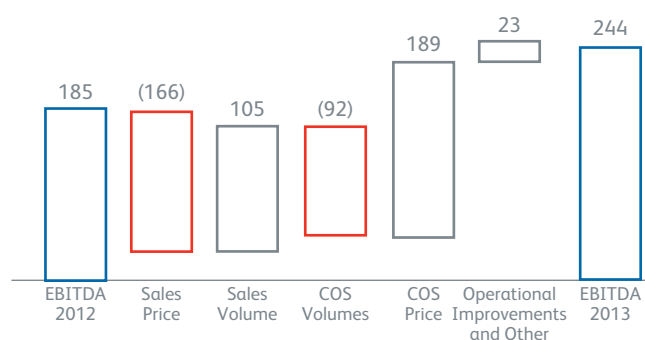
In 2013, Severstal International's average headcount was 2,135.



Key performance indicators	2013	2012	Change %
Production of crude steel (thousand tonnes)	4,979	4,587	8.5%
Sales of steel products (thousand tonnes)	4,654	4,465	4.2%
Revenue (US\$ million)	3,878.1	3,878.5	0.0%
Gross profit (US\$ million)	152.7	103.6	47.4%
Profit/(loss) from operations (US\$ million)	49.7	(6.9)	n/a
Operating margin (%)	1.3%	(0.2%)	n/a
EBITDA (US\$ million)	244.3	185.1	32.0%
EBITDA per tonne (US\$/tonne)	52.5	41.5	26.5%
EBITDA margin (%)	6.3%	4.8%	n/a
Average steel product price (US\$/tonne)*	806	843	(4.4%)
Hot-rolled strip and plate (US\$/tonne)	704	744	(5.4%)
Cold-rolled sheet (US\$/tonne)	863	900	(4.1%)
Galvanized and other metallic coated sheet (US\$/tonne)	947	988	(4.1%)

\* Steel products include semi-finished, rolled, and downstream product.

## EBITDA drivers in 2013, US\$m



## Production results

In 2013, Columbus and Dearborn produced 4,979 thousand tonnes of crude steel and Dearborn produced 1,959 thousand tonnes of hot metal.

Production volumes (thousand tonnes)	2013	2012	Change %
Hot metal	1,959	1,850	5.9%
Crude steel	4,979	4,587	8.5%

## Sales results

While NAFTA steel demand in 2013 for hot-rolled, cold-rolled and coated products remained flat or declined, Severstal shipments of hot-dipped galvanized products grew by 7.7 per cent, followed by 2.1 per cent growth of hot-rolled strip and plate, and 4.4 per cent growth of cold-rolled sheet. Cold-rolled sheet and hot-dipped galvanized products are predicted to produce more growth in the future as our capacity continues to increase.

In 2013, the automotive market continued to improve significantly. Growth in construction was driven by the residential sector while the non-residential market declined.

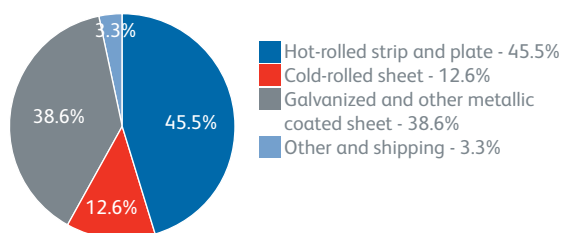
Customer growth in both Columbus and Dearborn was due to a combination of market growth and share gain. For Columbus, the energy market (pipe and tube), had the greatest impact, while growth in Dearborn came from increases in automotive.

## Sales by product

Dearborn and Columbus are prioritising the growth of the higher value added products in their portfolios. In 2011-2012, we launched two more galvanising lines at Columbus and Dearborn with a total capacity of one million tonnes, bringing our total capacity to two million tonnes. In 2013 we continued to increase our capacity, increasing sales of galvanized and other metallic coated sheet by 8 per cent in one year.

However, the division's sales revenue remained unchanged in 2013 at US\$3,878 million due to lower realized prices.

## Revenue breakdown by product, 2013

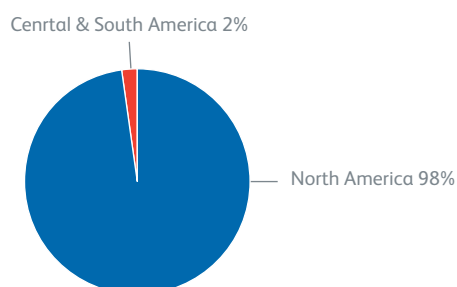


	2013		2012		Change, %	
	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
<b>Sales by products</b>						
Hot-rolled strip and plate	2,506	1,765.3	2,454	1,824.9	2.1%	(3.3%)
Cold-rolled sheet	567	489.2	543	488.5	4.4%	0.1%
Galvanized and other metallic coated sheet	1,580	1,496.3	1,467	1,450.0	7.7%	3.2%
Total rolled products	4,653	3,750.8	4,464	3,763.4	4.2%	(0.3%)
Total semi-finished products	1	0.2	1	0.5	-	-
Total steel products	4,654	3,751.0	4,465	3,763.9	4.2%	(0.3%)
Other and shipping	-	127.1	-	114.6	n/a	10.9%
Total	4,654	3,878.1	4,465	3,878.5	4.2%	-

### Sales by market

In 2013, US domestic sales amounted to US\$3,783.6 million, and export sales amounted to US\$94.5 million. About 97.6 per cent of our revenue came from domestic sales to US steel consumers. Export sales are made up of Columbus's sales to Mexico.

## Severstal International FY 2013 revenue breakdown by region



	2013		2012		Change, %	
	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
<b>Domestic sales by products</b>						
Hot-rolled strip and plate	2,471	1,740.5	2,381	1,770.7	3.8%	(1.7%)
Cold-rolled sheet	539	466.5	522	470.2	3.3%	(0.8%)
Galvanized and other metallic coated sheet	1,533	1,457.9	1,441	1,426.2	6.4%	2.2%
Total rolled products	4,543	3,664.9	4,344	3,667.1	4.6%	(0.1%)
Total semi-finished products	1	0.2	1	0.5	-	-
Total steel products	4,544	3,665.1	4,345	3,667.6	4.6%	(0.1%)
Other and shipping	-	118.5	-	106.7	n/a	11.1%
Total	4,544	3,783.6	4,345	3,774.3	4.6%	0.2%

	2013		2012		Change, %	
	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million	Thousand tonnes	US\$ million
<b>Export sales by products</b>						
Hot-rolled strip and plate	35	24.8	73	54.2	(52.1%)	(54.2%)
Cold-rolled sheet	28	22.7	21	18.3	33.3%	24.0%
Galvanized and other metallic coated sheet	47	38.4	26	23.8	80,8%	61.3%
Total rolled products	110	85.9	120	96.3	(8.3%)	(10.8%)
Total semi-finished products	-	-	-	-	-	-
Total steel products	110	85.9	120	96.3	(8.3%)	(10.8%)
Other and shipping	-	8.6	-	7.9	-	8.9%
Total	110	94.5	120	104.2	(8.3%)	(9.3%)

## Costs

Total cost of sales in 2013 was US\$3,725.4 million, 1.3 per cent less than in 2012. This is mostly due to the slightly cheaper cost of scrap and the positive effect of operational enhancements at all levels. For instance, a reshuffled approach to scrap purchasing has brought savings of US\$16 a tonne at Columbus and of US\$10 a tonne at Dearborn in the last two years.

## Sustainability

In October 2013, the Tennessee Valley Authority (TVA) and Mississippi Governor Phil Bryant visited Columbus to honour Severstal for its energy efficiency, and presented us with a cheque of nearly US \$2.5 million. Through TVA's Major Industrial Programme, the steel plant was able to reduce its total energy use by 25 million kilowatt-hours, which is enough to power 2,000 average TVA homes. We are proud to help move the state forward in energy efficiency.

Also in October 2013, Severstal North America joined two of the most respected sustainability organisations for operations and sourcing: the United Nations Global Compact (UNGC) and the Conflict-Free Sourcing Initiative (CFSI). This allows Severstal to take its existing purchasing practices to the next level and become an industry leader in transparent and sustainable sourcing standards.

Severstal's sustainable sourcing standards for its suppliers focus on three key areas:

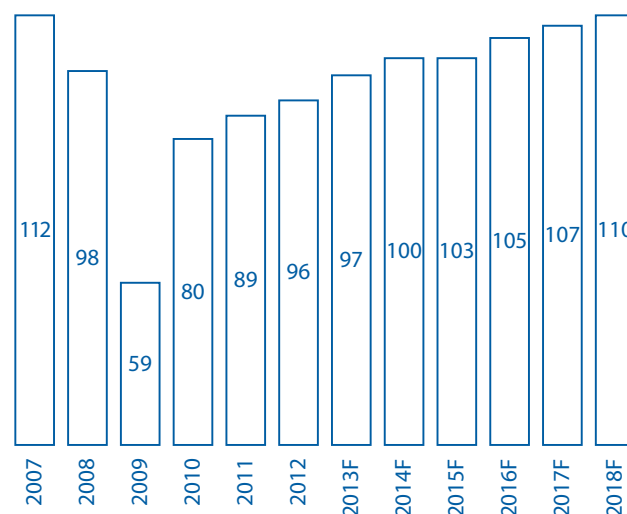
- Safe and healthy working conditions. We aim to follow the highest safety standards and comply with international human rights laws.
- High environmental standard. We aim to foster environmental protection and manage resources responsibly.
- Strong business ethics. We facilitate integrity, diversity and non-discrimination, and ensure conflict-free sourcing.

## Plans for 2014

In 2014 and beyond we expect the North American steel market to demonstrate modest growth.

According to analyst estimates, US consumption of finished steel is expected to grow in the coming years to reach 110 million tonnes by 2018, a 10 per cent growth from the 2014 level.

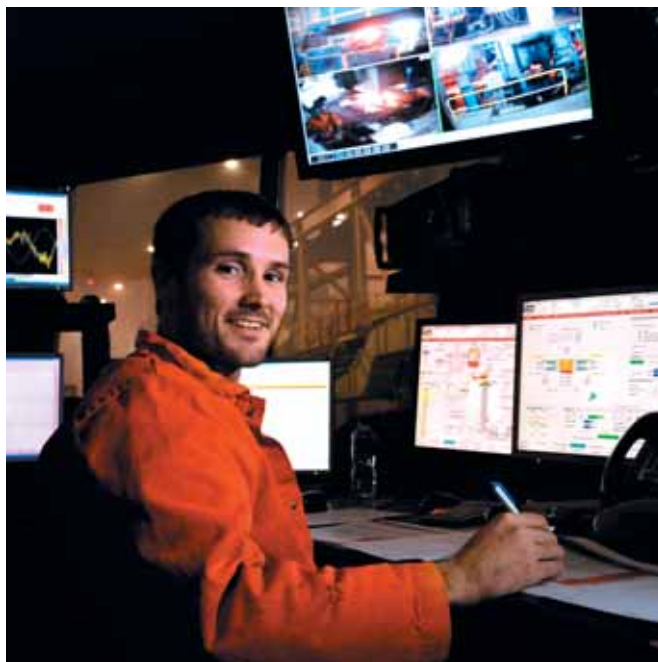
## US Finished Steel Consumption, mt



This year we will be focusing on improving the quality of products at Dearborn, as well as further scrap mix optimisation and copper scheduling at Columbus, continued optimisation of logistics and revisiting our sales and marketing strategy at both assets.

Since our investment programme of recent years is complete, our target CAPEX in 2014 will be low, at around US\$85 million with maintenance being around US\$73 million of the total CAPEX amount.









# Sustainability



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## Our Principles

### Our commitment to sustainability

Steel is a highly useful and versatile material and does not lose its useful characteristics. When no longer required, it is very easy to recycle. Making steel is much less energy intensive than making other materials with similar characteristics and utility. In these respects, steel supports sustainable development.

Across all of our operations, we pursue new business opportunities that bring economic and environmental benefits to our customers and other stakeholders. Wherever we operate, we bring significant economic and environmental benefits to all stakeholders. We can only achieve these long-term business outcomes if we have social stability and partnership. Therefore, our commitment to being a sustainable business means that we are ever mindful of health and safety, environmental stewardship and social responsibility, and particularly that we ensure the wellbeing of our host communities

### Our strategy for sustainability

We aim to be a reliable partner for all our stakeholders, and to do the following:

- Create value for shareholders
- Help to realise the creative potential of employees
- Constantly strive to improve labour safety
- Comply with legal requirements, and work with the state to achieve sustainable development
- Improve environmental performance and use resources more efficiently
- Contribute to social and economic development in our regions

### How we manage sustainability

All of our businesses follow common health, safety and environment (HSE), corporate social responsibility, social investments, and human resource management policies that are overseen by our Board. We regularly publish social reports consistent with the requirements of the Global Reporting Initiative (GRI).

### Working with stakeholders

Severstal is an open organisation, and our stability relies on efficient collaboration with many different partners. Honest, constructive collaboration is important to our development as an international business leader and a contributor to sustainable social development. This dialogue is also vital to identify early warning signs, needs and opportunities, and to help us to implement our voluntary commitments and increase our effectiveness in sustainability.

Our partners play an invaluable role as follows:

Shareholders:	Severstal's Board of Directors plays a key role in explaining our strategy in line with shareholder decisions. Members of the board visit our worldwide businesses on a regular basis.
Employees	Employees are involved in resolving key social development and industrial safety issues through a system of collective agreements with labour unions and healthcare committees.
Business partners	We build long-term strategic relationships with our suppliers and customers. Working with key customers, special committees, steering groups and advisory councils, we strive to satisfy customer demands effectively.
Government	We are strongly committed to our legal obligations as established by the government. We shape efficient partnerships with government authorities, to resolve regional development issues within the framework of social and economic partnership agreements and special-purpose programs.
Society	We participate in initiatives launched by Russian and international business associations focused on improving professional and ethical corporate standards.
Non-profit organisations; members of local communities	We liaise with non-profit organisations to support projects in areas where we operate, relating to environmental safety, support for mothers and children, healthcare development, culture and sports.

Our long-term commitment to sustainability focuses on the following four areas:

- Occupational health and safety
- Environment
- Development of our people
- Social commitment





### Our position

At Severstal, we believe leadership in the field of health and safety is key to sustainable development and long-term success. In fact, improved safety is one of our key performance indicators, crucial for the long-term competitiveness of our business.

Our Health and Safety Policy, signed by our CEO, informs safe behaviour throughout all Severstal's companies, enterprises and production processes. The policy states six fundamental principles:

- Safe working conditions are a priority
- Health and Safety management is a key component of the Severstal Business System
- Workplace hazards must be identified and all accidents reported
- Employees should behave safely and responsibly
- We comply with all health and safety regulations
- Health and safety information must be clear and straightforward

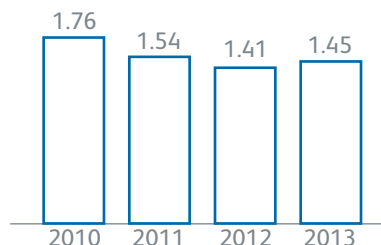
### Our action

We remain fully committed to running a safe and accident-free business. Our goal is to achieve zero fatalities. To achieve this, we run a continuous safety improvement program across all our operations, aiming to employ the best international health and safety practices and become the leading Russian company in this field.

This is the Labour Safety project, which we have developed as part of the Severstal Business System. The project aims to improve performance by involving all employees and reinforcing a culture of safety based on personal responsibility and recognition. The project is structured in three parts: providing safer working conditions, training, and engaging employees. An essential element of the Labour Safety project is a comprehensive audit and analysis, allowing us to monitor and compare standards and practices across the company, further helping us to improve health and safety performance.

In 2013, we kept LTIFR nearly at the same level as in 2012. Eleven Severstal Russian Steel businesses had zero injuries throughout the year.

### LTIFR – Lost time injury frequency rate



In 2013, we continued investing in labour safety initiatives. For example, Cherepovets Steel Mill invested approximately 10 million rubles in crane fall arrest systems in 2013. Fall arrest systems are installed on all electric cranes except for cranes with secondary load-sustaining brakes. These systems prevent falls and spontaneous lowering of crane loads after the loss of any of the three phases of power supply. This year, fall arrest systems were installed on all cranes in cold roll, hot roll, steelmaking, blast furnace and sintering plants, as well as in the transportation department and the Chief Power Engineer's department of Cherepovets Steel Mill. The average cost of installation was 43 thousand rubles per crane. "We agreed upon the crane fall arrest programme with the Northern Authority of Rostekhnadzor. The programme covers 716 cranes. In 2013, we equipped 230 cranes of Cherepovets Steel Mill with the fall arrest systems. This program is scheduled for completion in 2014," says Andrey Lutsenko, CTO of Severstal Russian Steel.

We continued improving the Labour Safety project methodologies throughout 2013. For example, we implemented the new format of Behavioral Safety Audits (BSA) in Severstal Russian Steel that enables us to analyse the root causes of dangerous behaviors and develop corrective action plans.









### Our position

Our Environmental Policy, developed in 2011, commits us to maintaining high standards for environmental responsibility by:

- Preventing environmental contamination, and participating in the reduction of greenhouse gas emissions
- Optimising the use of energy and natural resources
- Managing waste efficiently

We aim for full compliance with applicable environmental regulations and focus on developing and deploying efficient management systems following international best practices.

We support the development of a system for constructive cooperation on environmental issues between the government, employees, business partners and NGO experts. Our managers work in partnership with the RUIE Committee on Environmental, Industrial and Process Safety. We also work with the World Steel Association (Worldsteel) to conduct research into climate change and reducing our impact on the environment.

### Our progress

In 2013, all our Russian assets allocated more than 4.9 billion rubles to environmental protection initiatives. Responsibility towards the environment is at the forefront of our construction and modernisation projects. We are a member of the Sustainability and Environmental Committees of Worldsteel. Our Cherepovets Steel Mill was the first company in the Russian ferrous metallurgical industry to develop and implement an environmental management system that satisfies the ISO 14001 international standard. In 2007, we successfully completed recertification under the new ISO 14001:2004 standard. Nine of our key businesses in Russia and the US deployed ISO 14001 compliant environmental monitoring systems.

### Severstal Russian Steel:

“Environmental projects remain a priority despite challenging conditions in the global economy and steel markets. In 2013, the Year of the Environment in Russia, Severstal more than doubled its investments in environmental programs in Cherepovets, to 2.5 billion rubles,” says Sergey Toropov, Chief Executive of Severstal Russian Steel.

Environmental components are a critical aspect of all new construction and rehabilitation projects at Severstal. Between 2012 and 2016, Cherepovets Steel Mill will invest approximately US\$183.3 million in environmental projects aimed at reducing atmospheric emissions. In 2013, Cherepovets Steel Mill implemented around 14 large-scale initiatives. Of these, about half are aimed at minimising atmospheric emissions, and are focused on reducing dust and hydrogen sulphide content in the air at Cherepovets.

We consistently use technical innovations further reducing our environmental footprint. For example, the new Coke Battery seven that we built and launched in April uses a dust-free coke discharge unit that will reduce dust emissions from the battery by 90 per cent.

The largest of our ongoing environmental projects is the installation of a 3.6 billion ruble escaped emissions control system for converters. This system offers the highest emission control efficiency in Russia, greater than 99 per cent according to its manufacturer Siemens VAI MetalTechnologies.

In the middle of 2012, we launched another dust emission control project at EAF (electric arc furnace) #1. By completely reconstructing the gas treatment facilities, we hope to achieve the best available standards. Completion of this project is scheduled for 2014.

By 2015, we will achieve a 33 per cent reduction in particulate matter emissions from our sintering plant by fully upgrading the aspiration system at one of our units, with an investment of up to US\$28.3 million.

Another project launched in 2012 at a cost of approximately US\$11.3 million will enable us to reduce silicon dioxide emissions by 284 tonnes annually, through reconstructing the gas-cleaning units of the dolomite rotary kiln. We have also set up production facilities to process coal tar from the Cherepovets coke production plant. These will supply premium quality chemical raw materials – pitch, naphthalene and technical oils – to the international market. This facility will be operated by Severtar, our joint venture with Rutgers. It will use state-of-the-art technologies that meet the latest environmental protection standards. We are also working with the Moscow MISIS University to reduce hydrogen sulphide emissions. We are carrying out 180 tests and taking 2000 measurements to identify principal emission sources. We have made several improvements in our technological approach, allowing a decrease in hydrogen sulphide levels in the air. The goal is to hit emissions targets by the end of 2015.

In 2013, we allocated 964 million rubles towards water-protection measures. For instance, we built a new unit for water purification that filters waste water into clean.

### Energy efficiency

Energy efficiency and environmental performance have improved in regions where Severstal is present. In December 2013, Interfax, the ERA environmental and energy rating agency, rated Russian regions by the fundamental efficiency and environmental responsibility of their businesses in 2012. Vologda region, the home of the principal asset of Severstal – Cherepovets Steel Mill – took the eighth spot and had improved its efficiency performance compared with the previous year. Other regions where Severstal is present, including Komi Republic, Republic of Karelia, Murmansk region and Saratov region, also demonstrated strong efficiency improvements.

Vologda region improved its performance against all indicators included in the rating, with overall efficiency improvement of 1.9 per cent. The transparency of Vologda businesses was measured at 77.8 per cent, overall environmental performance was 85 per cent, and technological efficiency was 94.1 per cent.

Energy efficiency and environmental responsibility initiatives from Severstal and its principal asset in Vologda region contributed to the overall improvement in the region.

We were placed higher than all of our competitors in the Interfax ERA fundamental efficiency rating of the 150 largest enterprises and nearly 4000 businesses from all industries. We were ranked 45th, higher than any other steelmaker.

This rating reflects several business performance criteria including the ability to operate with a smaller environmental footprint, the amount of product manufactured per unit of energy and natural resources, performance improvements over the preceding six years, and the level of public transparency.

Energy efficiency is an area of focus for the Cherepovets Steel Mill. In 2013, Cherepovets Steel Mill produced 3511.826 million kWh of electricity, 7.1 per cent more than a year ago. Share of internally produced energy in the overall consumption increased to 63.6 per cent, which is eight per cent higher than in 2012. The economic benefit from increased electricity production compared with 2012 was 238 million rubles. Increased power generation was the result of optimized equipment operation, reduced scheduled and unscheduled downtime of power generation units, implementation of the new BSS components, and the launch of the new TG4 turbine unit, TPH-SAP (Thermal Power, Heat, Steam and Air Plant). The TPH-SAP generated record high amount of electricity, 10.8 per cent up compared to 2012, while TPH-EAP-2 beat its previous record high of 2012 by 1.5 per cent. TSC and GNCT-12 recovery turbines also produced record high amount of electricity in 2013.

### Severstal Resources:

#### Karelsky Okatysh

Karelsky Okatysh is undertaking air protection initiatives to cut its gross harmful emissions. The initiatives already resulted in a 31.68 ton reduction in sulphur dioxide emission in 2013.

Karelsky Okatysh is also building a wastewater monitoring station to be completed by the end of 2014. The monitoring system is fully automated. All measurements are uploaded to a server over a wireless network, providing staff with online access to explosive residues in groundwater.

#### Vorkutaugol

Vorkutaugol's environmental program in 2013 was focused on reducing its environmental footprint and recovering biological resources. Total investments reached 52.5 million rubles.

We will work hard on further reducing atmospheric emissions of coalbed methane, which is a byproduct of coal mining. Vorkutaugol has significantly reduced its emissions over the last two years by using methane as a fuel in boilers. Heat from these boilers is used to provide heating to surface buildings and for coal drying at Severnaya Preparation Plant. The launch of a gas-piston heat and power plant fired by coalbed methane will reduce methane emissions to a fraction of their current amount. The power plant is now in its start-up phase.

Apart from in-house environmental protection initiatives, this year Vorkutaugol is planning to participate in River Band, an annual regional environmental volunteering program, for the third time. In summer, employees volunteer to clean up nearby rivers and lakes. In 2013, Vorkutaugol was the top contributor among all industry participants from Komi Republic. In total, 220 Vorkutaugol employees volunteered for this environmental initiative. Engineers and managers of all coalmines, Yunyaginskiy open pit, Pechorskaya Preparation Plant and Vorkuta Transportation Department participated in clean-up activities on a regular basis. They removed more than 150 cubic meters of waste, and cleaned the water protection zones of six creeks and four fishing rivers. Our employees also removed more than 370 tonnes of scrap from a collection site near Bolshoi Michavozh creek.

In 2013, Vorkutaugol arranged environmental training for employees. This training was included in this year's comprehensive corporate environmental protection program.

Training sessions for employees took place in the training center at Vorkutaugol. Our corporate ecologists trained supervisors and their deputies in all functional departments. They familiarised themselves with Severstal's environmental protection policy and discussed the components of Vorkutaugol's environmental footprint and the effort taken to reduce it and improve the environmental performance of the company.

"Our environmental policy is designed to reduce the environmental footprint of our mining operations," explains Principal Ecologist of Vorkutaugol Natalia Vishniauskene. "We invested more than 36 million rubles in environmental initiatives in 2013. We used some of this money to refurbish local treatment facilities at Vorkuta Mechanical Plant, which is located at the city limits.

In 2013, Vorkutaugol installed a wind turbine at one of its plants to reduce electricity costs and minimise its environmental impact.

The wind turbine uses wind to generate electricity. Tsentralnaya station uses this electricity as a backup power supply for its telecommunications and alarm equipment. Access to wind energy enables the mining company to continue transportation operations even after mains power loss. The 6 kW wind turbine is connected in parallel with the main grid helping rail operators to save on electricity costs. Vorkuta Transportation Department is currently planning to purchase a battery to store the energy generated by the wind turbine.

Vorkutaugol purchased two state-of-the-art ANTARIS 6 kW generators from German Braun Windturbinen. One of these is already installed at the Tsentralnaya rail station managed by the Vorkuta Transportation Department (a subsidiary of Vorkutaugol).

"If the tests of the first wind turbine are successful, we will purchase more turbines for other railway stations," says Andrey Shveitser, Director of Vorkuta Transportation Authority.

Apart from generating electricity, wind turbines reduce the environmental footprint of local operations, which is a priority of the corporate environmental protection policy. One 6 kW wind turbine saves approximately 175 tonnes of coal over its average useful life of 20 years (eight tonnes per year) and also helps to reduce carbon dioxide emissions.

In 2013, Vorkutaugol also completed a large construction project that included two (11.6 MW and 5.8 MW, respectively) gas-fired reciprocating engines at Severnaya deep coal mine. When commissioned, the reciprocating engines will utilize around 28 million cubic meters of coalbed methane to generate heat and power for the mine, which will result in the annual reduction of greenhouse gas emissions by 470,000 tonnes of CO<sub>2</sub> equivalent. Following the cost benefit analysis of Severnaya methane project, we may launch similar projects at other Vorkutaugol coalmines.

### Olenegorsk Iron Ore Plant

Olenegorsk Iron Ore Plant invested 46 million rubles in its 2013 environmental programme. Priorities included laboratory monitoring of air and water, as well as the application of dust suppressants to biological rehabilitation of its tailing pond. The plant spent more than 4 million rubles on dust suppression on mine roads.

Key initiatives focusing on reduction of impact on water bodies included the construction of shore discharge piping and water conduits at the new open pit. The plant invested 15.5 million rubles in these projects.

In 2013, Olkon continued the rehabilitation of the dryer at its crushing and treatment plant to reduce emissions of particulate

matter. This project included the construction of a new 63 million ruble bag filter separator that decreased pollutant emissions from winter drying of iron ore concentrate.

“We are committed to full compliance with applicable environmental laws. On top of that, we design and implement future-proof environmental projects accounting for a possible growth of production volumes,” says Chief Executive of Olkon Aleksandr Popov.

In 2013, Olkon developed the technology and regulations for removal of nitrous pollutants from pit water, and embarked on a series of environmental initiatives focused on municipal landscaping.







### Our position

People with the appropriate skills and engagement are crucial to the long-term, sustainable development of our business. Therefore, we strive to create appropriate conditions for our employees to realise their potential, and aim to shape a corporate culture based on professionalism, initiative and responsibility.

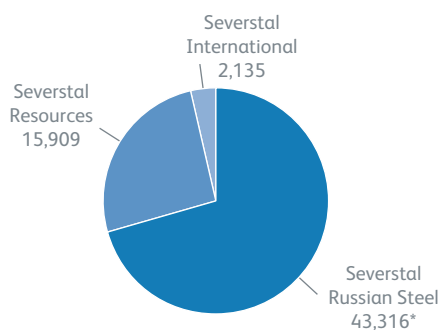
We have many schemes for employee development and training, from induction programmes through to senior professional development. The main purpose of these events is to promote the cultural transformation of the company in order to ensure the most efficient implementation of our corporate strategy. Severstal believes that industry leadership is only possible when our customers are happy with our products and services, while our employees are engaged and follow safe work practices.

Areas of social activity include employee rehabilitation, support for mothers and children, catering and recreation for workers, social support for retirees and veterans, incentives for employee improvement, and many other kinds of benefits and insurance.

At the same time, challenging conditions in steelmaking and mining industries are forcing us to keep looking for ways to improve our productivity. In 2013, we optimised the headcount of our corporate headquarters in Moscow and the headquarters of our individual businesses. This optimisation focused on bringing our management closer to our employees, so that we manage our business more efficiently while reducing our administrative expenses. Severstal will keep working on improving our productivity, reducing our costs and other initiatives to make us more competitive.

In 2013, our average headcount including our corporate headquarters totaled 61,360 employees, distributed among our divisions as follows:

### Average divisional headcounts in 2013



\* Including corporate headquarters.

### Highlights

In 2013, every manager from the top six levels of management participated in the annual performance evaluation process including discussion of goals, 360-degree feedback and HR Committees aimed at identifying and developing talent. From 2014, all employees of Severstal's Russian businesses will be able to participate in discussion of their goals.

The majority of our vacancies are filled internally. Severstal has a management reserve program. Members of the management reserve work on individual development plans towards the next level of management.

### Students, graduates and young professionals

Recruitment of promising young professionals is one of the key priorities of Severstal's HR policy. Our dynamic development, new projects and global expansion creates a strong need for talented and ambitious young people striving for continuous development.

#### Numbers and facts

- Approximately 1500 students completed their internships in Russian businesses of Severstal in 2013.
- Our Russian businesses employed 200 graduates in 2013.

The active engagement of students, graduates and young professionals is a priority of Severstal's HR policy.

We have a program for recruiting, onboarding, training and developing young professionals focused on three target domains – secondary schools, trade schools and universities – and the following objectives:

- To meet our long-term demand for students, graduates and young professionals
- To ensure that graduates have adequate qualifications when they join us
- To create an environment conducive to professional growth and career development of young professionals
- To increase the attractiveness of jobs in the mining and steelmaking industries

For this program, we collaborate with approximately 20 specialized universities in Russia (SPbSPU, MISIS, MSMU, VSTU, ChSU, ISPEU), 10 trade schools and the universities of Michigan, Mississippi and Colorado.

In the regions where Severstal Resources has a presence (Vorkuta, Kostomuksha, Olenegorsk), we sponsor specialised tracks in secondary schools, helping students to enter leading specialised universities and later giving them an opportunity to return to their home cities and join Severstal.

In the regions where Severstal Russian Steel has a presence, we host annual career guidance and talent selection events for high school graduates including Word on Steel and Metallurgist contests.

We offer students of our partner schools an opportunity to complete introductory, professional or graduation internships in our businesses. In 2013, we agreed to increase the duration of professional and graduation internships to 8–10 weeks so that in addition to familiarising themselves with technologies and equipment and getting hands-on experience, the interns also receive official confirmation of their qualifications and required clearances. We create an individual development plan for every intern, which is then put into practice together with his or her mentor.

Our educational partnerships also cover the professional development of teachers, scientific research and supplementary leadership education for students. We offer top students an opportunity to join the Severstal Business School. 2013 was the fourth year running our business school. Its students spent several days studying the fundamentals of manufacturing management, the Business System of Severstal, tools of continuous improvement and personal productivity improvement methodologies.



We hosted the first young professionals' conference in 2013. It was attended by approximately 100 young professionals. They had an opportunity to meet corporate executives, ask questions and discuss development opportunities, and to meet their colleagues from other cities.

*"We are looking for active candidates who are able to change with our company and support these changes. It is important that our new employees share our values. We always give preference to well-educated candidates who can learn and share their knowledge with others," says HR Director of Severstal Russian Steel Andrey Belyshev.*

In 2013, we continued our partnership with Cherepovets State University focused on coordinating our joint projects to help us address steelmaking challenges and improve university education in Cherepovets.

We offer comfortable conditions to students and young professionals. In 2013, we opened a new dormitory for interns and new employees of Severstal Russian Steel.

Our career opportunities and job fairs are posted to social networks including LinkedIn, Facebook and VK.

<http://vk.com/severstalgraduate>

<https://www.facebook.com/OAOSeverstal>

### Achievements

Universum published the ranking of top Russian employers for students and young professionals in May 2013. Severstal moved up 21 places in the technical jobs ranking and 19 places in the business jobs ranking.

In 2013 the steelmaking industry overall started to gain appeal among students and young professionals. However, Severstal significantly outpaces the industry, being the most popular steelmaker in Russia.

This achievement is the result of our effort to create attractive conditions for the internal development of young professionals while our communications events are focused on educating our future employees about career development opportunities available in Severstal.

*"Severstal placed higher in this rating than Procter & Gamble, MARS, Coca-Cola Hellenic, McKinsey and Johnson & Johnson – traditional global leaders in technical jobs for students interested in manufacturing careers. This achievement was made possible by concerted effort of our company's management, individual divisions, universities and student communities," says Recruitment and Employer Brand Manager of Severstal Anna Butova.*

### Employment of graduates

Another key area of human resources development at Severstal is the employment and retention of graduates. More than 200 graduates from specialist universities joined Severstal's Russian businesses in 2013.

Our Young Talent programme includes a range of initiatives focused on developing young people's interest in the steelmaking and mining industries. We work closely with a number of secondary schools

and universities. In 2013, top Severstal managers offered training to students from the leading Moscow and St. Petersburg universities.

In January 2014, Severstal and Vologda region signed an agreement on the modernisation of vocational education in the regional steelmaking industry. This document was signed by the Governor of Vologda region Oleg Kuvshinnikov and the Chief Executive of Severstal Russian Steel Sergey Toropov. The key objectives of this agreement are comprehensive modernisation of regional vocational education and supply of talent to the steelmaking businesses in Vologda region. The agreement sets the conditions and amounts of financial support. Severstal will invest approximately 53 million rubles in this program between January 1, 2014, and December 31, 2015.

This programme is not the only example of our successful cooperation with government authorities. In 2012, we launched a new experimental machinery test site at our SSM-Tyazhmash subsidiary.

### Compensation

Employee remuneration comprises regular pay and social benefits, including a company pension plan, health insurance, life insurance and other benefits. Our corporate pension programme is in place at all of our Russian operations, in partnership with the non-governmental retirement fund StalFond. We are establishing similar practices in other divisions.

### Equal rights, diversity and ethical behavior

Severstal is committed to fair employment practices, and treats all employees with dignity and respect. All decisions affecting employment and career development are made on merit. The fundamental assessment criteria are work performance, qualifications, competence, abilities, skills, knowledge and relevant job experience. In addition, Severstal is an equal opportunities employer committed to equal treatment of men and women in the workforce. We currently have more than 30 per cent female employees, which is a high percentage for steelmaking and mining businesses.

In July 2013, employees of Karelsky Okatysh participated in the Creative and Active Working Youth 2013 forum. Karelsky Okatysh supported the event that celebrated the 20th anniversary of Severstal, 30th anniversary of Kostomuksha and 95th anniversary of Karelian trade unions.

The forum focused on social and political involvement of the youth, development of creative potential, and skills exchange with young leaders and young teams on design and implementation of social and economic projects.

Forum participants received first aid training, practiced collaborative work including distribution of social roles and collective decision-making, and familiarised themselves with the Hope for Family program, a Kostomuksha initiative of Severstal's Way Home charitable project. There was a dedicated workshop focused on the collaboration of government, businesses and communities, and the role of the media.

Forum participants developed proposals for the Government of Karelia and the City of Kostomuksha, created two social video advertisements on the harm caused by alcohol and the "hope for family", and established an organising committee for the next youth forum that will focus on social entrepreneurship skills.



### Medical programs

Cherepovets Steel Mill offers a comprehensive Health of Severstal medical programme.

Its main objectives include:

- Improving the availability and quality of medical care
- Strengthening the first line of healthcare
- Creating conditions for efficient pre-hospital medical care
- Preventing diseases
- Providing high-tech, state-of-the-art medical care

In 2013, Vorkutaugol expanded its corporate private medical insurance programme for employees. The programme budget was increased by nearly eight per cent in 2013, and dental coverage was added.

Vorkutaugol employees covered by the corporate health insurance program have an opportunity to receive high-quality treatment for work-related injuries not only in Vorkuta, but also in the leading healthcare institutions of the Komi Republic, Moscow and St. Petersburg. In Vorkuta, we use the Rossgosstrakh Medicine outpatient clinic. This clinic offers the services of 19 specialist doctors including an endocrinologist, a hematologist, a cardiologist, a neurologist and an otolaryngologist. Approximately four thousand Vorkutaugol employees, about a half of our staff, have used healthcare services under the corporate healthcare programme. They received 47,000 separate healthcare services including specialist advice, massage, a variety of treatments and laboratory tests in a medical centre in Moscow.

The company invested approximately 60 million rubles in the private health insurance program in 2013. We are planning to increase our investment in this program to 66 million rubles this year. In addition to private health insurance, we are planning to complete the construction of a state-of-the-art preventive healthcare facility for our miners. We will allocate more than 100 million rubles to this project. Approximately 80 per cent of Karelsky Okatysh employees used their corporate health insurance in 2013.

A disease prevention plan jointly developed in 2013 with SOGAZ insurance group and North-Western Healthcare Center reduced the number of sick days at Karelsky Okatysh by 10 per cent. The private medical insurance agreement included the operation of onsite medical stations and financing of industrial medicine events.

We offered Men's Health, Women's Health, Healthy Spine and Healthy Legs & Feet extended diagnostics programmes based on the results of regular medical check-ups. Itinerant medical services offered by St. Petersburg specialists in Kostomuksha prevented thousands of sick days and helped employees to save money on travel to diagnostics and treatment centres. We paid for eye microsurgery treatments for 29 employees, at leading Russian clinics. As in previous years, insured employees had access to high-quality dental care with state-of-the-art equipment.

Rehabilitation, recovery and health resort treatments are a major component of our private health insurance program. In 2013, our private health insurance coverage was extended to summer trips for employee's children and rehabilitation for retirees. The Family Vacations programme was another new addition, used by 60 families to visit Nadezhda health resort in Anapa. Employees in high-risk jobs receive annual personalised treatments in the best Russian health

resorts and in the North-Western Medical Centre. Last year, 500 employees visited health resorts.

In November 2013, SOGAZ insurance group purchased and installed state-of-the-art ultrasound diagnostics equipment in North-Western Medical Centre to evaluate various organs and systems, including the cardiovascular system. This type of diagnostic testing is available free of charge for all employees of Karelsky Okatysh, CTA and Korpanga.

Olkon launched its corporate private health insurance program in 2007. This program includes outpatient and inpatient services, dental coverage as well as rehabilitation and recovery treatments. More than 400 employees of Olkon used corporate private health insurance services last year. Healthcare services were provided in Murmansk, Moscow and St. Petersburg.

Since 2014, our corporate private health insurance programme has included a 13 million ruble risk-based insurance component.

This year, our corporate health insurance programme will pay for summer trips for the children of our employees to a health resort in Anapa.

### Housing programs

Severstal strives to help our employees to secure adequate accommodation. In April 2012, we launched the second phase of our housing programme in Cherepovets, which includes several apartment buildings. More than 2,100 employees improved their housing conditions in 2013. Many families received apartments free of charge.

Karelsky Okatysh launched its housing programme in July 2007. The purpose of this program is to attract and retain high-potential professionals. As of December 2013, 105 employees participated in this programme. We signed 18 mortgage interest reimbursement agreements for housing in Kostomuksha. We paid 6,887 thousand rubles of mortgage interest reimbursements to program participants last year. Last August, we updated the regulations of Karelsky Okatysh housing programme clarifying its conditions from initial application process to implementation of approved applications.





### Our position

Severstal continues to play a crucial role in supporting the development of our communities and regions. We aim to make a long-term positive impact in key areas, such as education, youth policy, culture and sports. We develop the welfare of the society around us to improve the sustainability of our business.

### Our action

We work closely with the regional authorities on a variety of strategic social programme in areas such as employment, career guidance, healthcare and occupational guidance and prevention of child neglect and homelessness. Our main commitments are integrated into our agreements with the regional authorities. We also provide charitable support to children's, culture and sports programmes. We regard these programmes as an investment in the spiritual and physical development of the younger generation.

### Highlights

In 2013, we continued to support our priority projects focused on children, education, culture and sports. We spent over US\$63.2 million on various social programs. We are committed to high-quality management of social programs and support development of innovative approaches and technologies in this area.

Our social initiatives received multiple awards. In 2013, Severstal was rated the first among the Russian top ten businesses with a systematic approach to charitable activities. Our non-profit and volunteering development programmes took the first two spots in the Leading Corporate Donors Award. We took the first spots in the steelmaking industry ranking and the Top 10, and won the People Investor 2013 award in the Development of Local Communities nomination. We won the Russian nationwide Every Child Needs a Family contest and the Best Russian Businesses – Agility, Efficiency & Responsibility award of RSPP for our contribution to demographic development.

### Society

Severstal maintains productive cooperation with local administrations and the public on acute social, economic and environmental challenges, and works with nationwide and regional non-profit organizations and professional associations. This cooperation helps to foster favorable social conditions in the regions where our businesses are located.

We support universities and colleges, culture and sports organizations, and provide financial help to war veterans and people with disabilities. We use competitive selection tools to qualify projects and expand our collaboration with professional associations and non-profit organizations. We design tools for multifaceted cooperation focused on addressing specific social issues and on developing the social potential of our regions.

The Agency for Urban Development, our non-profit joint venture with the City of Cherepovets focused on developing small and medium businesses, has brought tangible results. Cherepovets Steel Mill currently works with 281 service providers. In 2013, Cherepovets Steel Mill purchased 8.8 billion rubles worth of products and services from Cherepovets small and medium businesses, generating 76 per cent of their overall revenues. In 2012 and 2013, the Agency helped to establish 300 new businesses in Cherepovets (mostly in services,

retail, manufacturing and construction) and to create 1953 jobs—in addition to keeping 2000 jobs in existing businesses.

In 2013, the Agency for Urban Development received Osnova Rosta 2013 award for efficient informational and analytic support of small and medium businesses. Established by the Social Projects and Programmes Foundation supported by the Russian Ministry of Economic Development and the Russian Union of Industrialists and Entrepreneurs, this award recognizes the contributions to the national economy through support of small and medium businesses.

In 2013, Vorkutaugol invested more than 20 million rubles in important social projects in the Komi Republic. The majority of this money was allocated to socially important venues through our agreement with the city. According to the agreement, we supported the most important components of municipal infrastructure including education, culture and sports.

Vorkutaugol finances the two largest social venues in the Extreme North – the Miners' Palace of Culture that hosts more than a hundred regional and municipal cultural events per year, and the Universal Sports Centre Olymp, which is the largest sports and concert hall in Vorkuta and the home arena of Olymp Junior Hockey Club.

Karelsky Okatysh financed the upkeep of Druzhba culture and sports centre in Kostomuksha, where more than 90,000 people attend various events every year.

Olkon provides annual upkeep to Olenegorsk Culture Palace with at least 20 thousand visitors per year.

All our businesses also support disability organisations, veteran associations, children's educational institutions, sports clubs and schools, and host regional and municipal festivals and celebrations.

### Children and the future

Child neglect and orphanhood are among the most acute social issues in Russia. Public orphanages in Russia currently support 106,000 children. In 2006, Severstal initiated the unique Way Home program, which focuses on comprehensive prevention of child neglect and social orphanhood in Cherepovets. This program is currently active in six of our regions, including Cherepovets, Vorkuta, Kostomuksha, Balakovo, Veliky Ustyug and Olenegorsk. The Way Home program has 18 projects and 4 social services. Its new targets for 2013 include the focus on youth crime prevention and the transfer of best practices in child neglect prevention to other regions of Russia. In 2013, Severstal launched the new With Mum program in the Baby House in Cherepovets. This project focuses on prevention of early-childhood abandonment.

### Culture and the arts

Severstal supports the leading Russian museums and theatres. In 2013, we continued our support of Bolshoi Theatre, Russian Museum, State Tretyakov Gallery, State Historical Museum, Cherepovets Museum Association, Kirillo-Belozersky Museum-Preserve, Museum of Dionisy Frescoes (Ferapontovo, Kirillovsky District), Vologda Museum and Reserve, Radishchev Arts Museum and Balakovo Art Gallery. Severstal sponsored the unique Pushkin Museum of Fine Arts exhibition, the largest in the whole history of the museum. We continue our support of the Golden Mask Theatre Festival in Moscow, Riga and Cherepovets.

In 2013, we continued to work with the Museums of Russian North



grants programme focused on reviving regional arts museums. Under this program, we organized the fourth grants contest among the museums located in 12 northwestern regions of Russia. Five museums from Cherepovets, Veliky Ustyug, Leningrad region, Kirov region and Republic of Karelia won the 2013 contest.

### Sports

Severstal promotes a healthy lifestyle among employees and their families by supporting the development of sport. Severstal invests in sports at the top competitive level: we believe that training the reserve for national teams is a great way to promote a healthy

lifestyle, to support the psychological, social and spiritual welfare of youth, and to build the prestige of our company. We organise regional sports and public events for employees and local communities, and finance several leading sports teams. Severstal supports Severstal Hockey Club, which is sponsored by Cherepovets Steel Mill. Severstal Sports Club trains athletes at a top competitive level and organises their participation in nationwide and international events. Severstal Sports Club has trained 33 international masters and 330 national masters. We also sponsor the Dynamo women's volleyball club.



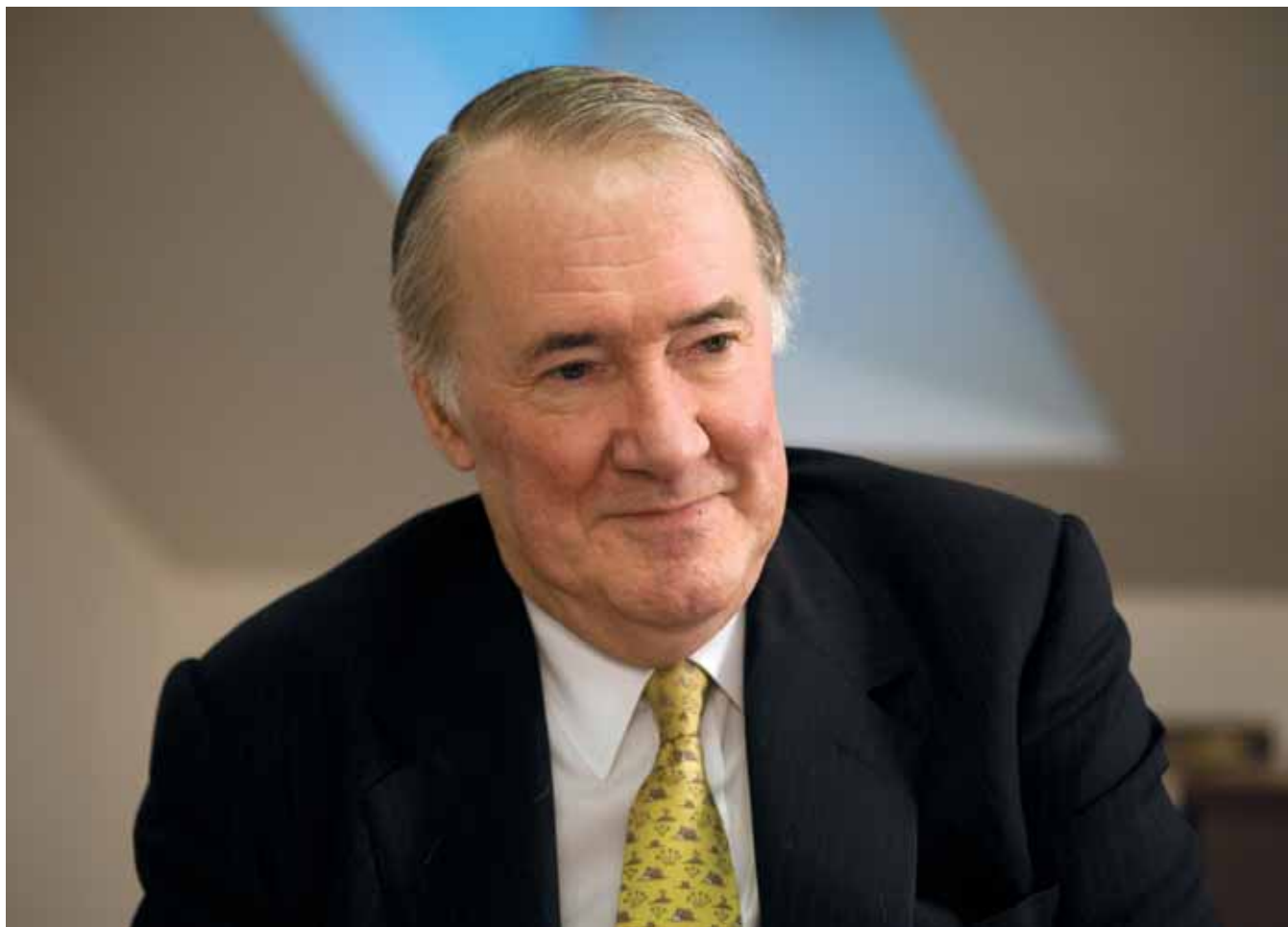




# Governance



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# Christopher Clark

**Role:** Chairman of the Board of Directors, Independent Non-Executive Director, Member of the Nomination and Remuneration Committee

**Experience:** Born in 1942, Chris Clark is a leading industrialist and brings extensive business knowledge to the Board. Chris's career spanned 42 years at Johnson Matthey plc, the specialty chemicals and precious metals group, where he became CEO in 1998. He led the Group into the FTSE 100 in 2002. Since his retirement in 2004, Chris has taken a number of non-executive positions. He has been chairman of Associated British Ports, the UK's leading ports group; Urenco Limited, the leading international supplier of enriched

uranium to the power generating industry; Wagon plc, the European manufacturer of metal components for the automobile industry; RusPetro plc, an independent oil and gas producer conducting oil exploration and production activities in the Krasnoleninsk field in Western Siberia, one of the largest oil producing regions in the Russian Federation.

**External appointments:** Board Advisor of Citicorp Venture Capital.

**Education:** Chris is a graduate in metallurgy. He studied at Trinity College, Cambridge and Brunel University, London.





# Alexey Mordashov

**Role:** CEO of OAO Severstal, Member of the Board Nomination and Remuneration Committee, Member of the Board's Health, Safety and Environmental Committee.

**Experience:** Born in 1965, Alexey Mordashov has been working for Severstal since 1988. He started his career as a senior economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal's Chief Executive Officer. Between 2002 and 2006 he served as Chief Executive Officer of Severstal Group and was Chairman of Severstal's Board of Directors. Since the introduction of the new structure of corporate governance in December 2006 Alexey Mordashov has been Chief Executive Officer of Severstal.

**External appointments:** Member of the Supervisory Board of Non-Profit Partnership Russian Steel (since June 2010), President of the Non-Profit Partnership Russian Steel (since June 2013). Chairman (since October 2012), Vice-Chairman (since October 2013) of the

World Steel Association. Head of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Committee on Trade and Customs Policy and WTO. Chairman of the Trade Taskforce of the Business 20. Alexey serves on the Entrepreneurial Council of the Government of Russian Federation and is a member of the Russian-German workgroup responsible for strategic economic and finance issues. He is a member of the EU-Russia Business Cooperation Council (since March 2006), a member of the Atlantic Council President's International Advisory Board. Chairman of the Board of OAO Power Machines and a member of the Board of Nordgold N.V. Chairman of the Board of ZAO SVEZA.

**Education:** Alexey earned his undergraduate degree from the Leningrad Institute of Engineering and Economics. He also holds an MBA degree from the Newcastle Business School of Northumbria University (Newcastle UK). Alexey was granted an honorary doctorate from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria in 2003.



# Vadim Larin

**Role:** First Deputy CEO and Chief Operating Officer, Member of the Health, Safety and Environmental Committee

**Experience:** Born in 1970, Vadim joined Severstal in 2003 and managed the company's coal operations at Intaугol as CEO. Since 2005 he has managed Kuzbassugol and has served as CEO of Vorkutaugol since 2007. He was appointed as CEO of the Severstal Resources Division from September 2010. Vadim Larin was appointed First Deputy CEO of OAO Severstal and Chief Operating Officer on 15 July 2013. Prior to joining Severstal, Mr. Larin worked at McKinsey & Company.

**External appointments:** CEO of ZAO "Severstal-Resources", Member of the Board of Directors of Mincorp Acquisition Corp., Mincorp Inc., PBS Coals, Inc. and RoxCoal, Inc.

**Education:** Vadim graduated from the Moscow State Institute of Radio Engineering, Electronics and Automation. Mr. Larin also holds an MBA from INSEAD (France).



# Alexey Kulichenko

**Role:** CFO

**Experience:** Born in 1974. Between 1996-2003 Alexey worked for Sun Interbrew, starting his career there as a cash flow economist at the Rosar plant in Omsk and ending it as Efficiency Planning and Managing Director of Sun Interbrew. Between 2003 and 2005 Alexey worked as CFO at Unimilk. From December 2005 to July 2009 he worked as CFO of CJSC Severstal Resource. From 2006 until

2010 Alexey was a member of the Board of Directors of OAO Vorkutaugol. In July 2009 he was appointed CFO of OAO Severstal.

**External appointments:** none.

**Education:** Alexey graduated from the Omsk Institute of World Economy with a degree in economics.





# Vladimir Lukin

**Role:** Senior Vice President, Legal Affairs and General Counsel, Member of the Health, Safety and Environmental Committee

**Experience:** Born in 1978, Vladimir Lukin joined Severstal Group in 2004 as Senior Legal Advisor. In 2007 he became Senior Legal Advisor of OAO Severstal. In 2008 Vladimir was appointed as head of the international project department. In 2009 he was appointed as Senior Vice President, Legal Affairs and General Counsel. Prior to joining the company Vladimir was with Freshfields Bruckhaus Deringer.

**External appointments:** Member of the Board of Directors of OAO Power Machines, First Deputy General Director of ZAO Severgroup and OOO Kapital.

**Education:** Vladimir graduated in Law from the Moscow State University.



# Mikhail Noskov

**Role:** Non-Executive Director

**Experience:** Born in 1963. Mikhail worked at the International Moscow Bank between 1989 and 1993. From 1994, he was Trade Finance Director of Credit Suisse (Moscow). He has worked for Severstal since February 1997, first as Head of Corporate Finance and from 1998 as Finance and Economics Director. Since June 2002 till December 2013, he worked as Deputy CEO for Finance and Economics of the Severstal Group. Between 2007 and 2008 he was Deputy CEO for Finance and Economics of Severstal.

**External appointments:** General Director's Council of ZAO Severgroup. Member of the Board of Directors of Nordgold N.V., OAO AB Russia, OAO Mostotrest, ZAO SVEZA, ZAO National media group, ZAO GK Video International, ZAO ABR Management, TUI Aktiengesellschaft and Non-Governmental Pension Fund 'Gazfond'.

**Education:** Mikhail graduated from the Moscow Institute of Finance.



# Rolf Stomberg

**Role:** Senior Independent Director, Chairman of the Nomination and Remuneration Committee, Chairman of the Health, Safety and Environmental Committee

**Experience:** Born in 1940. After nearly 30 years as an executive with BP (British Petroleum Co plc), where he last held the position of CEO of BP's downstream business and Managing Director on the Board of BP, Rolf held a number of directorships in global companies in Europe, such as Smith and Nephew plc, Reed Elsevier Group, TNT NV, Scania AB, John Mowlem plc and Management Consulting Group plc, as well as being on the boards of family owned companies. Rolf was Senior Independent Director and Chairman of the Remuneration Committee of RusPetro plc.

**External appointments:** Chairman of the Supervisory Board of LANXESS AG, Cologne, a global chemical company. Vice-Chairman of the Advisory Board of HOYER GmbH, Hamburg. Deputy Chairman of the Supervisory Board of Biesterfeld AG, Hamburg. Member of the Advisory Board of KEMNA Bau Andrea GmbH + Co. KG, Pinneberg.

**Education:** Rolf is an economics graduate and holds a Doctorate from Hamburg University, where he also served as a lecturer. He was Honorary professor at the business school of Imperial College, London, and the Institut Francais de Petrol, Paris.





# Martin Angle

**Role:** Independent Non-Executive Director, Chairman of the Audit Committee

**Experience:** Born in 1950. During his career, Martin has held senior executive positions in investment banking, industry and more recently private equity, where he was an Operational Managing Director of Terra Firma Capital Partners holding various senior Board positions in its portfolio companies. Prior to that, Martin was for a number of years the Group Finance Director of TI Group plc, a specialised engineering company in the UK FTSE 100 with activities in over 50 countries. Before that, he spent 20 years in investment banking, where he held a number of senior positions with SG Warburg & Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson.

**External appointments:** Non-Executive Chairman of the National Exhibition Centre Group Ltd. Senior Independent Director and Chairman of the Audit Committee of Savills plc. Non-Executive Director and Chairman of the Remuneration Committee of Pennon Group plc. Non-Executive Director and Chairman of the Audit Committee of Shuaa Capital psc. Vice Chairman and Chairman of the Investment Committee of the FIA Foundation.

**Education:** Martin is a graduate in physics, a Chartered Accountant, a Member of the Chartered Securities Institute and a Fellow of the Royal Society of Arts.



# Ronald Freeman

**Role:** Independent Non-Executive Director, Member of the Audit Committee

**Experience:** Born in 1939. Between 1991 and 1997, Ronald was Head of the Banking Department of the European Bank for Reconstruction and Development (EBRD). He was responsible for debt and equity financing in the private sector in 23 countries of the former Soviet Union, with a total annual funds commitment of two billion euros. Prior to that, Ronald was vice-chairman of Citigroup European investment banking and a general partner of Salomon Brothers. Ronald has held a number of directorships in such companies as Troika Dialog, KAMAZ Inc, and Polish Telecom.

**External appointments:** Non-Executive Member of the Board of Directors of Volga Gas. Member of the Executive Committee of the Atlantic Council. Member of the International Advisory Committee of Columbia Law School. Chairman of the Executive Committee of the Pilgrims Society (UK). Non-Executive Member of the Supervisory Board and Member of the Strategic Planning Committee of OAO Sberbank of Russia.

**Education:** Ronald holds a BA degree from Lehigh University and an LLB from the Law School of Columbia University. He has been admitted to the New York Bar.



# Peter Kraljic

**Role:** Independent Non-Executive Director, Member of the Audit Committee, Member of the Health, Safety and Environmental Committee

**Experience:** Born in 1939. Peter Kraljic is a Director Emeritus at McKinsey, where he spent 32 years and held a number of senior positions until his retirement in 2002. At McKinsey he focused on industrial clients in the chemicals, pharmaceuticals, automotive assembly and steel and aluminium sectors. He was also a member of McKinsey's Shareholders and Personnel Development Committee and has managed the company's activities in France as a General Director. Peter has also written a number of scientific and business articles for publications such as the Harvard Business Review and Le Figaro Economic. He has also led special projects aimed at

economic growth and job creation in Germany and Brazil. Peter was a member of the Advisory Board of several companies including Wolfsburg AG, GEMPLUS, Lek d. d., Gorenje and SID.

**External appointments:** Member of the Advisory Board of the Bled Business School.

**Education:** Peter graduated from the University of Ljubljana, Slovenia (Faculty of Metallurgy) and holds a PhD degree from Polytechnic University in Hannover, Germany. He also holds a MBA from INSEAD, France.



Severstal remains strongly committed to high standards of corporate governance. This is central to the business's long term sustainability and continued strong performance of the business in a manner as well as vital for maintaining investor confidence.

Severstal's corporate governance system underwent major changes in preparation for the company's London listing at the end of 2006. Looking forward, Severstal is determined to develop and evolve in its corporate governance practices, continuing the process it began in 2006.

### What are the governance initiatives we have implemented at Severstal?

We have continued to build on the corporate governance initiatives instigated in 2006 in Severstal's everyday operations. This evolution is being strengthened by the processes and procedures that we have put in place:

These are as follows:

1. A separate Chairman and CEO,
2. Appointing a chairman who met the criteria for independence at appointment
3. Putting in place an independent non-executive senior director,
4. Having a board that consists of ten members – 50 per cent of the Board consists of independent non-executives in accordance with the Russian and UK Corporate Governance Code,
5. An audit committee consisting of three members, all of whom are independent non-executives,
6. A remuneration and nomination committee chaired by an independent non-executive senior director,
7. The introduction of company Corporate Governance Code,
8. The adoption of the company's new charter and Regulations on Board Committees,
9. The instigation of insider dealing regulations.

The following initiatives further complement the above processes:

1. Quarterly statements of Internal Audit and Risk Management to the Audit Committee prepared on the basis of International Standards for the Professional Practice of Internal Auditing (Standards),
2. A new policy of information transparency (Severstal complies with the applicable laws of the Russian Federation and international corporate governance standards and ensures a high level of interaction between all company shareholders, the Board of Directors and management),
3. The participation of the independent auditor in all the meetings of the Audit committee, as well as separate meetings between the auditor and Audit committee members and its chairman,
4. A separate regular meetings of independent directors with the company CEO,
5. A formal annual evaluation of the Board's performance at both external and internal levels,
6. Non-scheduled site visits by the Chairman and Board members.

### What corporate governance code do we observe?

Since the formation of its corporate governance standards, Severstal continues to follow the requirements of:

1. The Severstal Corporate Governance Code – available at [www.severstal.com](http://www.severstal.com),
2. The UK Corporate Governance Code, 2012 (former the Combined Code on Corporate Governance of the Financial Reporting Council) – available at [www.frc.org.uk](http://www.frc.org.uk), and
3. Recommendations from the Corporate Conduct Code (2002) issued by the Federal Commission for the Securities Market of Russia – available at [www.fkcb.ffms.ru](http://www.fkcb.ffms.ru).

### What corporate governance principles are we adhering to?

Severstal's Corporate Governance Code has been prepared following the recommendations of the earlier Code of Best Practice set out in section one of the Financial Reporting Council's Code on Corporate Governance, and is based on the following main principles:

- Solid commitment to full alignment with shareholders' interests,
- A unified, well-shaped business structure supported by a focused corporate strategy,
- A disciplined merger and acquisition strategy supported by a qualified majority of Board members,
- Reliance on a stable, deep-rooted and incentivised management team,
- Industry-leading disclosure practices and transparent corporate reporting,
- A solid platform for delivering superior, long-term returns to all our shareholders.

Along with the Corporate Governance Code and Charter of the company, the activities of Severstal's management and supervisory bodies, as well as internal activities, are also governed by a set of internal corporate documents, such as:

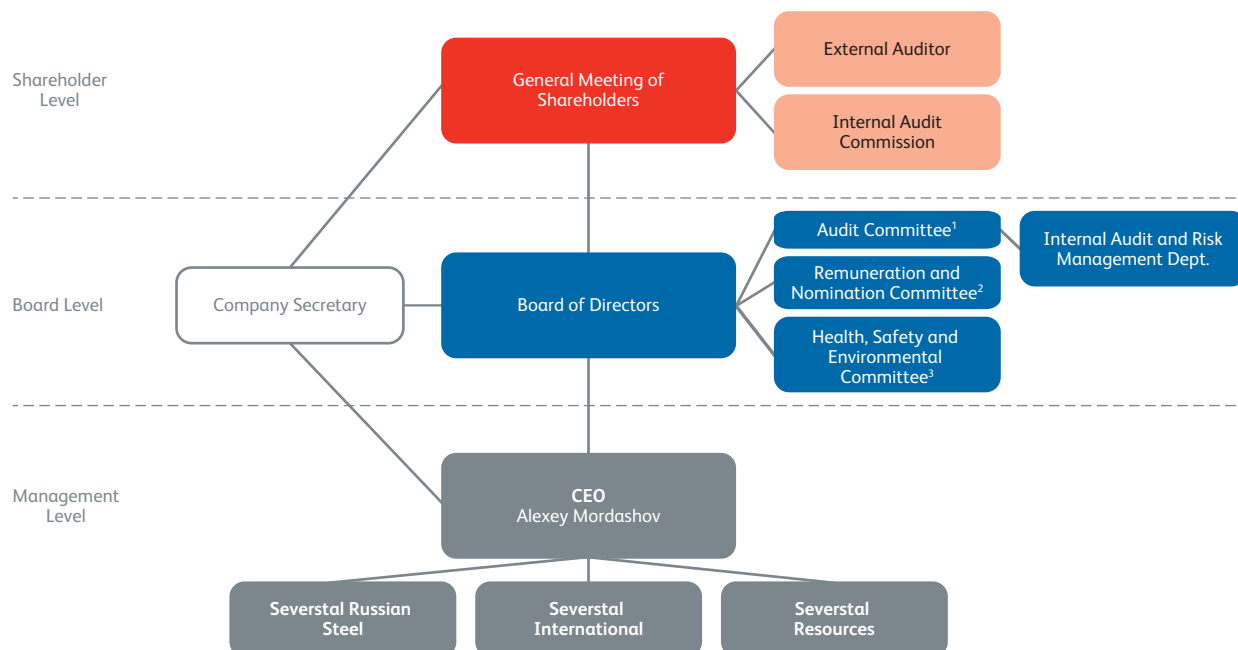
- General Shareholders Meeting Regulations (2006),
- Board of Directors Regulations (2008),
- Board Committees Regulations (2013),
- Internal Audit Commission Regulations (2006),
- General Director Regulations (2006), and
- Insider Information Regulations (2011).

The full set of the company's documents is available online at [www.severstal.com](http://www.severstal.com). All the principles and rules presented in the company's documents are largely compliant with the UK Corporate Governance Code 2012. Severstal has a 'standard listing' for its depository receipts on the London Stock Exchange.

Moreover, Severstal complies with the Russian corporate governance law requirements and meets the corporate governance mandatory requirements of MICEX for Russian listed 'B' companies, such as: the composition of the Board of Directors, the formation of Board Committees, the evaluation of the auditor's opinion, a set of internal documents.

Severstal is a member of the Russian Institute of Directors, the leading expert and resource centre for corporate governance, established by the largest Russian companies to develop, incorporate and monitor standards of corporate governance in Russia.

## How are we structured to ensure good, strong governance?



<sup>1</sup> Audit Committee members: Martin Angle (Chairman), Ronald Freeman, Peter Kraljic (in red independent non-executive Board members)

<sup>2</sup> Remuneration and Nomination Committee members: Rolf Stomberg (Chairman), Christopher Clark, Alexey Mordashov

<sup>3</sup> Health, Safety and Environmental Committee members: Rolf Stomberg (Chairman), Peter Kraljic, Alexey Mordashov, Vadim Larin, Vladimir Lukin

## Governance calendar for 2013

Overall calendar of General Meetings of Shareholders, Board and its committees are shown below:

Governing bodies	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
AGM						V						
EGM									V			V
In-person Board		V			V			V			V	
Audit Committee		V			V			V			V	
Remuneration and Nomination Committee		V						V			V	
Health, Safety and Environmental Committee								V			V	

### General Meeting of Shareholders

#### What is the role of the General Meeting of Shareholders and what are its key responsibilities?

The General Meeting of Shareholders (GMS) is at the top of Severstal's hierarchical structure: it represents the company's overall governing body.

Severstal GMS is responsible for:

- The approval and amendment of the company's charter,
- The reorganisation of the company,
- The liquidation of the company, appointment of liquidation commission and approval of intermediate and final liquidation balance sheets,
- The determination of the number of members for the company's Board, election of the Board members and the early termination of their powers,
- The determination of the quantity, face value and category of declared shares and rights given by these shares,
- Any increases in the company's share capital by increasing the face value of shares or by placing additional shares – only in cases, when pursuant to applicable law, the share capital may be increased by placing additional shares exclusively by the decision of the GMS,
- Any reduction of the company's share capital by reducing shares' face value or by acquiring part of shares with a view to reduce their total quantity, or through redemption of the shares the company acquires or buys,
- The formation of the company's executive body and early termination of its authority,
- The election of Internal Audit Commission's members and the early termination of their powers,
- The approval of the company's auditor,
- The approval of annual statements, annual accounting and reporting documents, including profit and loss accounts,
- The distribution of profit, including the disbursement of dividends, with the exception of profit distributed as dividends of the results of the first three quarters of the year, and distribution of the company's loss at the end of a fiscal year,
- The approval of conducting procedure for the GMS,
- The split and consolidation of shares,
- The approval of transactions as required by law,
- The approval of major transactions as required by law,
- The acquisition of placed shares,
- Participation in financial and industrial groups, associations and other commercial corporations,
- Approval of internal documents regulating activities of the company's bodies,
- Other matters provided for by the Russian Federal Law 'On Joint Stock Companies' and the company's Charter.

Preparation for, and conducting of, Severstal's GMS is provided for by the company's Regulations for the General Meeting of Shareholders.

#### When do we hold the GMS?

As required by the Russian law and the company's Charter, the Annual General Meeting of Shareholders (the AGM) shall be held no earlier than 2 months and no later than 6 months after the end of each fiscal year.

The Extraordinary General Meeting of Shareholders (the EGM) shall be held at the decision of the Board based on:

- The initiative of the Board of Directors,
- The request of the Internal Audit Commission,
- The request of the auditor,
- The request of a shareholder(s) of the company possessing in aggregate no less than 10 per cent of the company's voting shares on the date on which such a request is submitted.

Our shareholders exercise their rights relating to the company's management by voting at the GMS.

#### How do we inform our shareholders about the upcoming GMS?

According to the company's Charter, the Notice on conducting the GMS is to be published no later than 30 days prior to the date of the GMS. If the agenda of the EGM contains an item concerning the election of Board members, such a notice is to be published no later than 70 days prior to the date of the GMS.

Within the above-mentioned period, the notice on conducting the GMS is to be published in the newspapers: "Severstal" and "The Russian Newspaper". In addition, we post a notice on Severstal website ([www.severstal.com](http://www.severstal.com)) in Russian and English.

From January 1 2014, the notice on conducting the GMS shall be published only on the internet on Severstal's official website: [www.severstal.com](http://www.severstal.com).

Ballots for voting on items of the GMS's agenda are directed to the company's shareholders no later than 20 days before the GMS.

#### How do we inform our shareholders about the GMS resolutions?

As required by Russian law and Severstal internal regulations, the resolutions taken by the GMS and GMS voting results shall be:

- Announced at the GMS, in the course of which the voting took place
- If not announced at the GMS, published in the form of Voting Results Report in the "Severstal" and "The Russian Newspaper" newspapers within 10 days after the GMS Voting Results Minutes have been drafted,
- Disclosed in the form of a Corporate Action Notice as required by law,
- Posted on the company's official website (refer to [www.severstal.com](http://www.severstal.com) for more information).



### What are the issues Severstal GMS approved in 2013?

On 13 June 2013, Severstal AGM for 2013 approved the following:

1. The company's Board members.
2. The company's General Director.
3. The company's Annual Report, Annual Accounting Statements including the Profit and Loss Account for 2012.
4. Dividends for 2012 results in the amount of 1.89 rubles (US\$0.06 June 13, 2013 exchange rate) per share and per GDR.
5. Dividends for the 1 st quarter 2013 results in the amount of 0.43 rubles (US\$0.01 June 13, 2013 exchange rate) per share and per GDR.
6. The company's Internal Audit Commission members.
7. The company's Auditor.
8. Approval of the Company's Charter in the new edition.
9. On amendment/revision of the resolution on approval of the amount of remuneration and compensation payable to the Board members of OAO Severstal passed by the Annual General Meeting of Shareholders of OAO Severstal on June 11, 2010.
10. Approval of interested party transactions, which may be executed by OAO Severstal in the future in the normal course of business.

On 30 September 2013, Severstal EGM elected the company's Board of Directors in the new body (Sergey Kuznetsov and Alexander Grubman were replaced by Vladimir Lukin and Vadim Larin) and approved the dividends for half year 2013 results in the amount of 2.03 rubles (US\$0.06, September 30, 2013 exchange rate) per one ordinary registered share.

On 17 December 2013, Severstal EGM approved the dividends for 9 months 2013 results in the amount of 2.01 rubles (US\$0.06, December 17, 2013 exchange rate) per one ordinary registered share.

More information and materials for Severstal GMS and its dividend pay-out history is available at [www.severstal.com](http://www.severstal.com).

### The Board of Directors

#### What is the role of our Board of Directors and what are its key responsibilities?

Severstal's Board of Directors is responsible for the general management and performance of the company's operations, including the discussion, review and approval of its strategy and business model, and closely monitoring its financial and business operations both by segment and as a whole.

The Board's main objective is to run the company in a way that increases shareholder value in the medium and long term. Short-term financial and operational issues, such as debt levels and costs, also receive close attention.

The Board's decisions are based on the best interests of all stakeholders. This can mean making difficult decisions in complex situations.

The Board is also responsible for disclosure and dissemination of information about the company's operations, for implementing the company's information policy and for matters dealing with the company's insider information.

The Board has authority in decisions concerning major aspects of Severstal's activity, except in matters within the competence of the GMS.

The Board's activity is regulated by Russian law, the company's Charter (2013) and Regulations for the Board of Directors (2008).

Key responsibilities of our Board of Directors:

1. The company's strategic direction,
2. The review of consolidated budget and submission of appropriate recommendations,
3. The review of appointment and compensation policy applicable to the company's senior executives and the issue of recommendations regarding such policy,
4. The approval of issues relating to calling and holding the GMS, which fall within its competence under the applicable law,
5. The dividend policy,
6. The placement of the company's bonds and other issued securities in cases provided by law,
7. The approval of the price (estimated value) of assets, the price of placement and redemption of issued securities,
8. Internal Audit Commission and auditor fees,
9. The recommendation of dividend amounts for approval of the GMS,
10. The use of the emergency fund and other funds of the company,
11. The opening of the company's branches and representative offices and their liquidation,
12. The approval of the company's registrar and contract relations with it,
13. The approval of transactions with interested parties (as this term is defined in accordance with Russian law) with the value of each transaction up to two per cent of Severstal assets' book value on the date such a transaction is agreed,
14. The approval of transaction amounts exceeding 10 per cent of Severstal assets' book value on the date such a transaction is agreed,
15. The approval of transactions to acquire: (i) shares or participation interests, or rights to manage such shares or participation interests, (ii) fixed or intangible assets if the amount of the transaction specified in sub-clauses (i) or (ii) exceeds the equivalent of US\$500 million,
16. The approval of the company's Corporate Governance Code and internal documents regulating Board Committees' activity and insider relations.

#### Who is on our Board?

According to the company's Charter, Severstal's Board comprises ten members. Our Board has a strong independent element. Its current structure represents a balance between the Chairman (Christopher Clark), five Independent Non-Executive Directors including the Chairman, who met the independence criteria on his appointment as required by the UK Corporate Governance Code, 2012 (Christopher Clark, Rolf Stomberg, Martin Angle, Ronald Freeman

and Peter Kraljic), one Non-Executive Director (Mikhail Noskov) and four Executives (Alexey Mordashov, Vadim Larin, Alexey Kulichenko and Vladimir Lukin). Severstal strongly believes that maintaining such a balance on the Board is a prerequisite for good decision-making and governance.

The proportion of Independent Non-Executive Directors on the Board guarantees equal regard for the interests of all shareholders. The Board considers all of its Independent Non-Executive Directors to be independent, in line with the UK Corporate Governance Code, 2012.

Details of our individual Directors can be found in their biographies.

### Board composition

Executives	40%
Non-Executives	60%
Independent	50%
Male	100%
Female	0%

The Board reviews the independence of all Independent and Non-Executive Directors annually, and has determined that all such directors are independent and have no cross-directorships or significant links, which could materially interfere with them exercising their independent judgment. The company's Independent and Non-Executive Directors play a leading role in corporate accountability and governance through their membership and participation in the Audit Committee and the Remuneration and Nomination Committee.

#### How are the roles of Chairman and CEO clearly differentiated?

The roles of the company's Chairman and CEO are separate and their responsibilities are clearly defined in the company's organisational documents and are regulated by law.

Christopher Clark is Severstal's Chairman of the Board of Directors. The Board Chairman is elected from among its members by a majority vote.

The Board Chairman's role is to:

- Lead the Board and with other members of the Remuneration and Nomination Committee lead the recruitment of new directors,
- Ensure constructive relations between executive and non-executive directors,
- Ensure that all Board members are able to maximise their contribution to the Board,
- Provide strategic insight from his wide-ranging business experience and contacts built up over many years,
- Provide a sounding Board for the CEO on key business decisions and challenge proposals where appropriate,
- Preside over the GMS,
- Meet with shareholders on governance matters and be an alternative point of contact to the CEO for shareholders on other matters. Alexey Mordashov is Severstal's CEO. As required by Severstal internal documents, the company's CEO cannot be elected as the

Board Chairman, which is in line with the UK Corporate Governance Code, 2012.

The CEO's role is to:

- Lead the business and the rest of the management team,
- Lead the development of the company's strategy with input from the rest of the Board,
- Lead the management team in company acquisitions and new build decisions,
- Ensure organisation, status and accuracy of the company's accounting practices and the timely provision of appropriate authorities with financial reports,
- Bring matters of particular significance or risk for discussion and consideration of the Board if appropriate,
- Be the principal public face of the company with shareholders, customers, suppliers and the industry in general,
- Cooperate with the company's trade unions to protect the interests of the company's employees and communicate with state and municipal authorities.

#### Why our Board is the right team to deliver the long-term success of the business?

The Severstal Board, which comprises ten members, has a majority of Independent Non-Executive Directors, whose role is to properly challenge the management team. Their ability to act as a check and balance is underlined by the high calibre nature and broad experience of our Non-Executive Directors.

Severstal's Chairman is Christopher Clark, who previously had a career spanning about 40 years at Johnson Matthey plc, the specialty chemicals and precious metals Group. Christopher previously chaired RusPetro plc, an independent oil and gas producer conducting oil exploration and production activities in the Krasnoleninsk field in Western Siberia, one of the largest oil producing regions in Russia. He earlier chaired Associated British Ports, Ureco Limited and Wagon plc.

Severstal's Senior Independent Director is Rolf Stomberg. Rolf is chairman of the nomination and remuneration committee and HSE on Severstal's Board, and was previously a senior executive with BP for more than 30 years as well as a director of medical technology group Smith & Nephew. Rolf is chairman of the supervisory Board of LANXESS, a global chemical company.

The other independent directors are: Martin Angle, a highly respected investment banker, who has Board level experience at a number of listed companies; Ronald Freeman, who was Head of the Banking Department of the European Bank of Reconstruction and Development; and Peter Kraljic, who had a highly distinguished career at McKinsey over 32 years where he held a number of senior positions.

#### What have we done in 2013 to set best corporate governance standards?

In June 2013, Ronald Freeman participated in the St. Petersburg International Economic Forum. The Forum represents a unique opportunity for global leaders to address topics at the forefront of the world agenda. Ronald Freeman took part in the panel discussion on Enhancing Russian Corporate Governance Standards.

In November 2013, Christopher Clark and Alexey Mordashov led Severstal's senior management team in London at the company's annual Capital Markets Day. Severstal's presenting team updated investors and banking analysts on the delivery of the company's strategy and objectives, as well as the outlook for the global steel and steel-related mining markets. The team demonstrated that Severstal is well positioned to continue its outperformance, helped by further internal efficiencies and prudent cash management. This included an asset structure aligned with the strategic priorities, further progress in implementing the Business System of Severstal and continued targeted investments. More details are available on [www.severstal.com](http://www.severstal.com).

In December 2013, the Grand Ceremony of 2013 National Director of the Year award took place in Moscow hosted by the Association of Independent Directors, the Russian Union of Industrialists and Entrepreneurs, Moscow Stock Exchange and PwC.

Christopher Clark, Chairman of Severstal's Board of Directors, was recognised as one of the best three Chairmen in Russia. He was recognised as one of two laureates in the Best Chairman of the Board of Directors category at the National Director of the Year awards ceremony.

When receiving the award, Christopher Clark commented: "I would like to thank the hosts and sponsors of this wonderful ceremony. It is an excellent idea that we are glad to promote. I believe it is a privilege and achievement for us to take part in this annual ceremony."

Mr. Clark emphasised that a high level of confidence and willingness to challenge are integral personal characteristics of the Independent Director. Therefore, independence is both a mindset and a specific decision-making approach.

Along with Christopher Clark, Severstal's Corporate Secretary, Oleg Tsvetkov, who won the award in the Best Corporate Secretary category in 2008, was also present at the awards ceremony. This year he has announced the winners in this category.

Severstal's Independent Directors have previously won numerous laureates in the Director of the Year award category, in particular:

- 2012 - all five of the company's Independent Board members and its Corporate Secretary were named amongst the 50 best Independent Directors, the 25 Best Chairmen of the Board of Directors, and the 25 best Corporate Secretaries. More details are available at [www.severstal.com](http://www.severstal.com) and [www.directorgoda.ru](http://www.directorgoda.ru).
- 2011 – Ronald Freeman, Independent Non-Executive Director and Member of the Audit Committee, was honoured as one of the best in the Independent Director category
- 2008 – Rolf Stomberg, Senior Independent Director, was nominated as one of the best in the Independent Director category

### What is the process for appointing new people to the Board?

Each member of the company's Board must be an individual.

Members of the Board shall:

- Act conscientiously and responsibly in the best interests of all shareholders and the entire company,
- Be possessed of appropriate professional skills,
- Devote sufficient time to the performance of their duties as a member of the Board so as to work efficiently,
- Once elected, give up representation of the interests of any group of persons in relation to the company, and act only in the best interests of all shareholders and the entire company, and
- Disclose in good faith full information about their interest in any transactions the company intends to enter into.

Our Board members are elected by the company's shareholders through cumulative voting at the GMS, for a term of office until the next AGM.

At cumulative voting, the votes of each shareholder are multiplied by the number of persons to be elected to the company's Board. A shareholder may give all of its votes to one candidate or distribute them between two or more candidates. Candidates with the greatest number of votes are considered elected. If a Board member elects to terminate their term of office the whole body of the Board is to be re-elected at a GMS. Those elected to the company's Board may be re-elected an unlimited number of times.

Directors new to the Board are given background information on the company when they take office. This includes details of the company's operations and procedures, as well as information on what is required from them in their role according to the company's internal documents. This includes Severstal's Corporate Governance Code, applicable corporate governance law, and descriptions of best practice to help ensure their early effective contribution to the company.

### What has the Board done during 2013?

Meetings of the Board of Directors are held in person or in absentia when necessary.

Board meetings are convened by the Board Chairman at the Board's own initiative, at the request of the company's Board member, Internal Audit Commission, Auditor, executive body or shareholder (s) possessing in aggregate at least two per cent of the company's voting shares.

In 2013, Severstal's Board of Directors held 4 meetings in person and 42 meetings in absentia.

These are the key issues reviewed by the Board in 2013:

- Board recommendations with the list of candidates to the company's Board, Internal Audit Commission and auditor for approval by the company's shareholders at the GMS.
- Proposals from the company's shareholders with items to the GMS's agenda and candidates to the company's Board, Internal Audit Commission and Auditor for approval by the company's shareholders at the GMS.
- Issues relating to convocation and conducting of the company's GMS.
- Recommendations to the GMS on the amount of dividends to be paid-out.
- Election of the Board Chairman, Senior Independent Director and members of the Board Committees.
- Approval of the Auditor's fee for 2013.
- Approval of the company's financials for FY2012, 1 Q2013, 1 H2013 and 9 M2013.



## Corporate governance statement

- Issues relating with operating results of the company's divisions.
- Issues relating with the issue of the company's bonds.
- Approval of the company's Corporate Governance Code and Regulations for the company's Board Committees.
- The company's budget for 2014.
- Liquidation of the company's representative office in Tolyatti.
- Transactions with interested parties.

The attendance of the company's directors at the meetings of the Board and its committees during 2013 is shown below:

Member of the Board	Number of Board in-person meetings possible	Number of Board meetings attended	Audit Committee meetings attended (out of 4 meetings)	Remuneration and Nomination Committee meetings attended (out of 3 meetings)	Health, Safety and Environmental Committee meetings attended (out of 2 meetings)
Christopher Clark	4	4	4*	3	2*
Rolf Stomberg	4	4	4*	3	2
Martin Angle	4	4	4	3*	-
Ronald Freeman	4	4	4	3*	1*
Peter Kraljic	4	4	4	3*	2
Alexey Mordashov	4	4	-	3	-
Mikhail Noskov	4	4	2*	-	-
Vadim Larin	4	2	1*	-	2
Vladimir Lukin	4	2	1*	-	2
Alexey Kulichenko	4	4	4*	-	-

\* this means that the specified Director is not a member of that Committee, although he attended the meeting at the invitation of the Chairman of the Committee.

Moreover, Independent Non-Executive Directors meet separately during the year. There were four such meetings in 2013.

Board and Committee members have direct and continuous access to Board and Committee materials via a electronic system, which also serves as an archive for Board and Committee materials – and as a way to vote in Board meetings where members are able to participate remotely.

### How do we ensure we have an effective Board?

The Board makes an annual self-evaluation of its performance based on the individual contribution of each Board member, and on an external evaluation once every three years, as required by the UK Corporate Governance Code, 2012.

The Board performed a self-evaluation of its performance for 2013 based on the individual contribution of Board members. The self-evaluation questionnaire was designed to identify the Board's strengths and areas for development.

The performance evaluation questionnaire contained three categories of questions: Board composition and structure, Board meetings and core processes, and Board engagement in the Company's business issues. It found that there was a positive dynamic in Board performance during 2013, driven by the active participation of Independent Directors in Board and Board committees' activities. The Board members singled out several strong characteristics of the Board in 2013, including the appropriate number of Board members, the fact that the Board is complemented effectively by the Committees as well as a clear set of policies, procedures and guidelines for the Board's operation, appropriate frequency and logistics of the Board meetings, objective and independent func-

tioning of the Board without undue influence from the company's management. It concluded that the board was good value to the management team.

The Board underlined some areas for improvement, including more effective succession management and the dedication of more time to identifying its own improvement opportunities.

### What is the role of our Senior Independent Director?

Rolf Stomberg is Severstal's Senior Independent Director, Chairman of the Remuneration and Nomination Committee and Health, Safety and Environmental Committee.

The Senior Independent Director's role is to:

- Work with the Chairman on the Board evaluation,
- Lead the evaluation of the Chairman,
- Meet major shareholders,
- Chair meetings of the Independent and Non-Executive Directors when the Chairman is not present.

Details of Rolf Stomberg's biography can be found here.

### What is the role of our Corporate Secretary?

The Corporate Secretary ensures Severstal's compliance with the requirements of applicable law, the company's Charter and internal documents regulating the needs and interests of the company's shareholders. The Corporate Secretary is responsible for safeguarding the rights and interests of shareholders, as well as establishing transparent and effective regulations to secure the rights of shareholders.

The Corporate Secretary's role is to:

- Facilitate activities of the Board and its committees,
- Keep the Board and its committees informed on governance matters,
- Facilitate the induction of new directors to the Board,
- Arrange preparation and holding of the company's GMS,
- Ensure disclosure of information as required by the applicable law,
- Assist in the ongoing development of the company's policies,
- Ensure communication with the company's shareholders, GDR holders as well as Russian and Foreign stock market regulators.

Before January 2014 the Corporate Secretary of Severstal was Oleg Tsvetkov (PhD, MBA). Oleg was awarded the 'Corporate Governance Director – Corporate Secretary' (2008) award and headed the list of Directors on Corporate Governance 2010–2013 in the steelmaking sector. Since 20 January 2014 the Corporate Secretary of Severstal became Artem Bobulich.

### What is our remuneration and compensation policy for the Board?

By the decision of the GMS, Board members may be paid remuneration during execution of their duties, and any expenses incurred in connection with their functions as Board members may be reimbursed. The amount of such remuneration or compensation is to be approved by the decision of the GMS only. Should any Board member decide to resign before their term of office expires, such a Board member is paid pro rata in proportion to the term of office that expired prior to resignation. The Board Chairman receives an annual special incentive fee, the amount of which is also subject to approval by the GMS.

We reimburse our Board members' expenses incurred in connection with the performance of their duties as Board members, including transport, accommodation and mailing costs, as well as costs relating to the translation of company documents or materials that they are provided with.

### What is our share capital structure?

Severstal share capital comprises ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as of 31 December 2013 comprises 837,718,660 issued and fully paid shares.

All Severstal shares carry equal voting and distribution rights. There are no restrictions or limitations on voting rights for holders of Severstal shares and GDRs.

#### Equity capital structure as at December 31, 2013

	Share, % Shareholders equity capital
Alexey Mordashov *	79.17%
Institutional investors and employees	20.83%
Total	100%

\* Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') had purchased shares in Severstal such that as at 31 December 2013 he controlled indirectly 79.17% of Severstal's share capital.

### What are the recent changes to the company's Charter?

Severstal's Charter and any other internal documents regulating the activities of the Company's bodies, can be amended or adopted in a new edition by the resolution of the GMS only, as required by the applicable law of Russia and the company's Charter. Decision on the company's Charter amendment or its adoption in the new edition is taken by a  $\frac{3}{4}$  qualified majority shareholder vote at the GMS.

On 13 June 2013, the AGM approved the company's Charter in the new edition.

On 06 December 2013 the Board approved the liquidation of the company's representative office in Tolyatti and introduction of respective amendments to the company's Charter.

The new edition of the Charter and Charter Amendments are available at [www.severstal.com](http://www.severstal.com).

### The Board Committees

#### What are the Committees of our Board and what do they do?

Severstal's Board of Directors includes the following committees:

- Audit Committee,
- Remuneration and Nomination Committee, and
- Health, Safety and Environmental Committee.

The Board Committees serve as consultative and advisory bodies that deal with issues raised by the Board. Committees may not act on behalf of the Board and are not considered to be management bodies of the company. They have no powers in relation to managing the company.

Committee meetings are held as and when necessary, but at least three times a year. They are held apart from the Board meetings so that extra attention can be given to discussing issues, which require preliminary Board consideration prior to approval by the Board members, and determine the necessity of the Board's approval for a specific issue.

Decisions of each Committee are taken by a majority vote of all Committee members taking part in the meeting. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie.

Activity of Severstal Committees is regulated by the Regulations for the Board Committees. Please refer to [www.severstal.com](http://www.severstal.com) for more information.

### The Audit Committee

«The Audit Committee has a key role in ensuring that the integrity of the Group's financial statements and the effectiveness of its risk management processes and internal controls are safeguarded. During the year, its activities continued to be focussed on the integrity and quality of the Group's financial reporting, the performance of the internal and external audit processes, the suitability of the Group's system of internal governance including receiving reports from Internal Audit, and other compliance related matters. The Committee will continue to monitor its activities in the light of regulatory and best practice developments.»

Martin Angle,  
Chairman of the Audit Committee

### Who is on our Audit Committee?

The Audit Committee consists of three Independent Non-Executive Directors. Currently they are:

1. Martin Angle (Chairman),
2. Ronald Freeman, and
3. Dr. Peter Kraljic.

Details of the abovementioned Audit Committee members can be found in their biographies.

In accordance with its terms, the Committee has sufficient recent relevant financial experience, and the overall skills required for financial statements, business risk analysis and financial management skills. No senior executive of the company is a member of the Audit Committee.

### What is the role of the Audit Committee and what are its key responsibilities?

The Audit Committee assists the Board of Directors in monitoring the company's risk management processes and control environment, and in reviewing the company's annual and quarterly financial statements and audit.

In its work, the Audit Committee also:

1. Evaluates candidates put forward as the company's external auditors and makes recommendations to the Board regarding the selection of external auditors,
2. Develops recommendations to the Board regarding external auditors' fees,
3. Reviews the scope and results of the auditors' work and their opinion and its efficiency and objectivity. Monitors the independence of the external auditor, taking into account the applicable requirements of professional and regulatory bodies in Russia and the UK,
4. Reviews the company's quarterly and annual financial statements, changes in accounting policies and practices, as well as material adjustments, if any, arising from the Audit, before the financial statements are submitted to the Board for approval and publication,
5. Reviews any other statements to be published which may relate to the financial performance of the company, prior to their recommendation to the Board for approval,
6. Monitors the effectiveness of risk management processes, internal control and corporate governance systems,
7. Monitors the internal audit function,
8. Monitors and controls the compliance policy for auditors supplying non-audit services,
9. Analyses material changes to applicable law that affect the company's financial statements, and any findings of supervisory bodies and court proceedings.

The Audit Committee also prepares its own evaluation of the auditors' opinion on financial statements and provides this evaluation to the company's Board and the AGM.

To ensure that the company's financial and business operations are monitored efficiently, external auditors with no interests in the company are employed to verify and approve the accounts. The Audit

Committee monitors the auditor's independence. The external auditor lead partner always participates in the meetings of the Audit Committee, reviewing the company's quarterly and annual results. Audit Committee members meet the external auditor regularly, without management, to discuss matters arising from the audit and review process. There were four such meetings in 2013.

Severstal's books and records are audited in compliance with the requirements of statutory law and International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB), with respect to financial statements prepared under International Financial Reporting Standards (IFRS).

Such audit takes place annually and, as of the first, second and third quarter of 2013, the company's interim condensed financial statements, prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting, are also reviewed in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

### What has the Audit Committee done during 2013?

The Audit Committee met four times in 2013. The Chairman of the Audit Committee is continually in touch with the Board Chairman, the external audit lead partner, the company's CFO and Head of Internal Audit.

These are the key issues reviewed by the Audit Committee in 2013:

- External Auditor's Report to Severstal's RAS financial statements for 2012.
- Severstal's RAS financial statements for 2012 and recommendation to the Board to approve it and to submit it for attention of the AGM.
- Transactions with related parties approved by the Board in 2012.
- Internal Audit Plan.
- Severstal's IFRS condensed interim financial statements for Q1, H1 and 9 M of 2013.
- Internal Audit report for Q1, H1 and 9 M of 2013.
- Internal control environment in Severstal Divisions: Severstal Russian Steel, Severstal Resources, Severstal International.
- Severstal Business Standard project implementation.

Individual attendance of the Audit Committee meetings by its members is shown on the page 98.

### The Remuneration and Nomination Committee

**«Attracting, retaining and developing top calibre executives is of utmost importance for the success of the company. The Committee, therefore, focuses on talent review, executive development and the need to have motivating, incentivising and competitive remuneration packages in place.»**

*Rolf Stomberg,*

*Chairman of the Remuneration and Nomination Committee*

### Who is on our Remuneration and Nomination Committee?

The Remuneration and Nomination Committee consists of three members. At least two members of the Remuneration and Nomination Committee, including the Chairman of the Committee, are Independent Non-Executive Directors. Currently the Remuneration and Nomination Committee comprises:



1. Dr. Rolf Stomberg (Chairman)

2. Christopher Clark, and

3. Alexey Mordashov.

Details of the abovementioned Committee members can be found in their biographies.

### **What is the role of the Remuneration and Nomination Committee and what are its key responsibilities?**

The Remuneration and Nomination Committee's role is to help the company engage qualified professionals to manage the company, and create the incentives necessary to ensure their successful work for the company. It also reviews remuneration and compensation for the company's senior managers and Independent Board members.

The Remuneration and Nomination Committee:

1. Develops general recommendations for the Board on selecting nominees to the Board, proposed by the Board,
2. Conducts preliminary evaluations of potential nominees to the Board and provides the Board with recommendations,
3. Informs the Board of any potential nominees to the Board it is aware of and recommends individual persons for nomination or election to the Board,
4. Issues an opinion as to whether a person nominated to the Board qualifies as an Independent Director,
5. Develops the system of remuneration and other payments made by the company or at the company's expense (including life and health insurance, and pension plans) for Board members, based on members' personal contributions to the company's strategic objectives,
6. Prepares and submits the appointment and remuneration policy for senior executives of the company, including its Chief Executive, as well as providing recommendations on the terms of the contract signed with the Chief Executive,
7. Reviews the Board members' performance, including the advisability of nominating respective Board members for another term in office,
8. Provides the Board with recommendations regarding the material terms of the General Director's contract,
9. Reviews information furnished by the Board members – to be disclosed in accordance with applicable law or the Charter – for establishing whether such Board members have an interest in any decisions of the company, as well as information related to the circumstances preventing the aforementioned officers from efficiently discharging their duties as members of the Board, and any circumstances entailing their loss of independence as a member of the Board.

### **What has the Remuneration and Nomination Committee done during 2013?**

The Remuneration and Nomination Committee met three times in 2013. The Chairman of the Remuneration and Nomination Committee is in regular contact with the company's CEO and Senior Vice-President of Human Resources.

These are the key issues reviewed by the Remuneration and Nomination Committee in 2013:

- The top ten company executives' remuneration and compensation.
- The company's bonus scheme.
- Long-term incentive plan practices.

Individual attendance of Remuneration and Nomination Committee meetings by its members is shown on the page 98.

### **Health, Safety and Environmental Committee**

«The Board reviews its performance in regular intervals and seeks out areas for improvement. In the light of grave safety incidents in our coal mines the Board resolved to sharpen the focus on the HSE performance of the entire Group. The Board, both Executive and Non-Executive directors and with strong support from the Group CEO, decided to set up a Board committee which is tasked to review the HSE performance of the company, discussing major incidents and lessons to be learned, and monitoring the implementation of measures and actions to improve the HSE performance. The Committee meets twice annually.»

*Rolf Stomberg,  
Chairman of the Health, Safety and Environmental Committee*

### **Who is on our Health, Safety and Environmental Committee?**

The Health, Safety and Environmental Committee has been formed by the Board in June 2013 and consists of:

1. Rolf Stomberg (Chairman),
2. Peter Kraljic,
3. Alexey Mordashov,
4. Vadim Larin,
5. Vladimir Lukin.

Details of the abovementioned Committee members can be found in their biographies.

### **What is the role of the Health, Safety and Environmental Committee and what are its key responsibilities?**

The Health, Safety and Environmental Committee shall assist the Board in obtaining assurance that appropriate systems are in place to deal with the management of health, safety and environmental risks.

The functions of the Health, Safety and Environmental Committee include:

- To advise the Board of Directors on safety policy and the establishment of safety procedures including the reporting system to the Company's executive body and through the executive body to the Board of Directors,
- To review the safety performance of the Company and its constituent parts against targets as established either by the Company's Board of Directors or its executive body,
- To review major safety incidents and advise on lessons learnt and/or sanctions to be applied,
- To initiate and review comparisons with best safety and environmental practice,
- To advise the Board of Directors on environmental policies, the establishment of procedures and practices and the reporting system on environmental performance to the Company's executive body and through the executive body to the Board of Directors,

- To review the environmental performance of the Company and its constituent parts against targets as established by the Board of Directors or its executive body, as well as compliance with legal obligations or objectives and restrictions set by the authorities,
- To review major environmental incidents or breaches of compliance and to advise on lessons learnt and/or sanctions to be applied.

### What has the Health, Safety and Environmental Committee done during 2013?

The Health, Safety and Environmental Committee met twice in 2013.

These are the key issues reviewed by the Health, Safety and Environmental Committee in 2013:

- The Health, Safety and Environmental legal framework.
- The company's Health, Safety and Environmental organization and processes.
- Internal Health, Safety and Environmental issues.

Individual attendance at Health, Safety and Environmental Committee meetings by its members is shown on the page 98.

### Sole Executive Body

#### Who is the company's Sole Executive Body?

The authority of the company's Sole Executive Body is exercised by the Chief Executive Officer/General Director of the Company.

The CEO is appointed by the company's GMS for a three-year period and can be re-elected an unlimited number of times.

Alexey Mordashov was re-appointed CEO at Severstal's AGM in 2013. Details are available at [www.severstal.com](http://www.severstal.com).

The GMS can, at any time, adopt a resolution on the early termination of the CEO's authorities.

#### What is the role of our Sole Executive Body and what are its key responsibilities?

The CEO, among other things, acts on behalf of the company, represents its interests, commits to transactions, and approves manning schedules, and issues obligatory orders and instructions for all of the company's employees.

The CEO carries out day-to-day management of the company and ensures its efficient operation by performing the tasks set by the Board of Directors. The CEO is responsible for the organisation, status and accuracy of accounting practices, the timely provision of appropriate authorities with financial reports, and the timely provision to shareholders, creditors and the media of information regarding the Company's operations. The Chief Executive Officer also cooperates with trade unions to protect the interests of company employees and communicates with state and municipal authorities.

There are more details on the role of Severstal's CEO on the page 96.

CEO's activity is regulated by Severstal's Regulations for the General Director. These Regulations are available at [www.severstal.com](http://www.severstal.com).

### Supervisory bodies of the company

#### What are the company's supervisory bodies?

Severstal supervisory bodies are as follows:

- Internal Audit Commission, and
- External Auditor.

#### What is the role of the company's supervisory bodies and what are their key responsibilities?

##### Internal Audit Commission

Severstal's Internal Audit Commission is a full-time internal control body that supervises the company's financial and business operations, to obtain adequate assurance that the company's operations are in full compliance with Russian law, to make sure the rights of the company's shareholders are observed, and the company's reports and accounts have no material mis-statements. The Internal Audit Commission acts in the best interests of shareholders and reports to the GMS.

Our Internal Audit Commission comprises three persons. They are elected for a period until the next AGM. Members of the Internal Audit Commission cannot be members of the company's Board and occupy any other position in the company's management structure at the same time.

Severstal's Internal Audit Commission was re-elected by the AGM in June 2013 in the following body:

1. Nikholay Lavrov (Chief Audit Executive),
2. Roman Antonov (Deputy Chief Audit Executive), and
3. Svetlana Guseva (Manager of Internal Audit and Risk Management).

Activity of the company's Internal Audit Commission is regulated by Severstal's Regulations for the Internal Audit Commission. These regulations are available at [www.severstal.com](http://www.severstal.com).

##### External Auditor

An external auditor is appointed annually by the GMS. The external auditor's role is to review the company's financial and reporting performance. The amount of its remuneration is subject to Board's approval.

As in 2012, ZAO KPMG was re-appointed as Severstal's auditor by the AGM in June 2013. KPMG was first elected as Severstal's auditor in 1997. According to a recent tender offer, which was conducted in December 2012, KPMG has been chosen as Severstal's auditor for 2013–2015 period. Detailed information about the company's auditor is shown below:

<b>Auditor name:</b>	ZAO KPMG
<b>Legal address:</b>	18/1, Olympiysky prospect, room 3035, Moscow 129110.
<b>Postal address:</b>	10, Presnenskaya Naberezhnaya, Moscow, Russia, 123317.
<b>State registration:</b>	Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585. Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.
<b>Membership in self-regulating auditors' organisation:</b>	Member of the Non-Commercial Partnership 'Chamber of Auditors of Russia'. The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

### Internal Control and Risk Management Systems

The information required by DTR 7.2.5 regarding the Company's Internal Control and Risk Management Systems in relation to the

financial reporting process is included in the Risk Management section below.





Risk management framework

Severstal's operations are subject to certain risks. Effective risk management is an essential element of our operations and strategy. The accurate and timely identification, assessment and management of risks supports our decision making at all management levels and ensures that we achieve our strategic goals and meet our KPIs.

Our risk management framework is designed to identify, manage and mitigate the risk of any failure to achieve business objectives. Executive management, managers and employees at all levels participate in the process of managing risk on a continuing basis, and perform duties assigned to them within the risk management process. The Board of Directors and all employees of Severstal are obliged to adhere to the company's risk policies and standards at all times during their work.

There is a formalised risk management structure in place, with clear delineation of roles, responsibilities and accountabilities for the Board, Audit Committee, Executive Committee and Risk Management function (a part of the Internal Audit and Risk Management Department).

The Board of Directors is ultimately responsible for maintaining a sound risk management and internal control system. The Audit Committee closely monitors the effectiveness of the risk management system and internal audit function and obtains regular risk reports from management.

Our risk management structure includes a Risk Management Committee that is responsible for implementing our risk management policy and monitoring the effectiveness of controls that support the company's business objectives. This committee meets several times a year and can meet more frequently if required. The committee comprises key vice presidents, the CEOs of our most important production facilities, and the head of our risk management function. Risk reports are compiled and submitted at each Risk Management Committee meeting, after which material risks are reported to the Audit Committee.

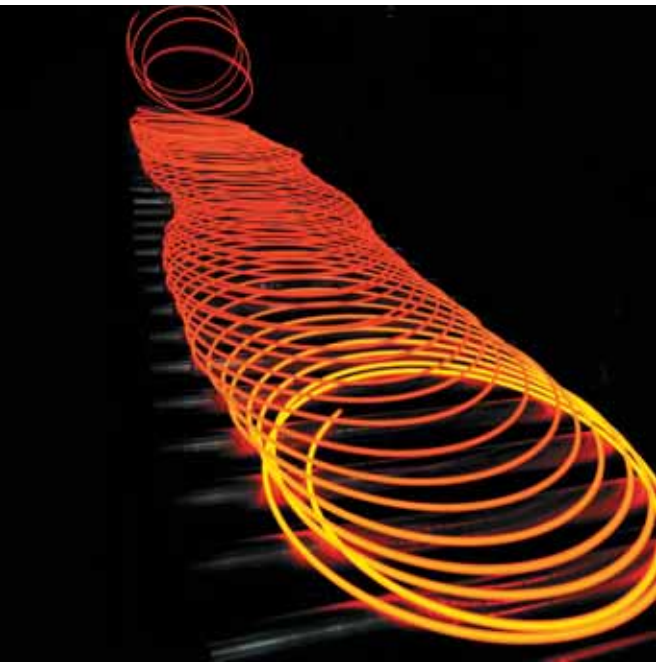
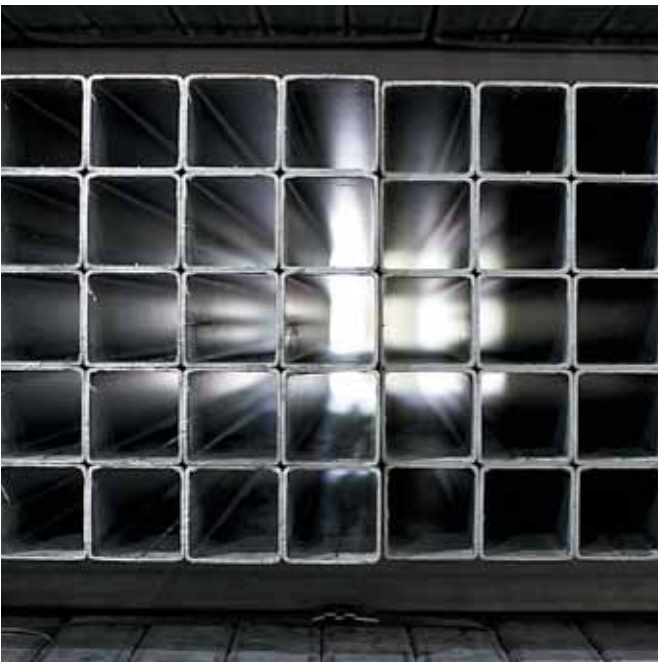
The Risk Management function (part of our Internal Audit and Risk Management Department) is responsible for coordinating risk identification and assessment processes, implementing risk management best practice, and internal and external reporting, and organize and coordinate Severstal insurance program.

Board	<ul style="list-style-type: none"><li>Assures shareholders that the company has identified key risks and is successfully managing them</li></ul>
Audit Committee	<ul style="list-style-type: none"><li>Monitors the overall effectiveness of the risk management system and internal audit function</li></ul>
Risk Management Committee	<ul style="list-style-type: none"><li>Monitors performance of the risk management system and key risks</li><li>Promotes communication between functional managers and between management and the Board</li><li>Preliminarily approves risk management policies and procedures</li><li>Reviews and approves external and internal risk reports</li></ul>
Risk Management function	<ul style="list-style-type: none"><li>Coordinates risk identification, assessment and mitigation measures</li><li>Accumulates and processes risk assessment data</li><li>Generates consolidated risk reports</li></ul>
Risk owners	<ul style="list-style-type: none"><li>Identify specific risks and initiate risk management measures</li></ul>

The key risk factors which are likely to affect our business, financial position and operational performance as well as mitigation measures are described below<sup>1</sup>.

Political risks

Severstal's activities are primarily concentrated in Russia, and the CIS and with additional operations in North America and Europe. We also have licenses for iron ore deposit development in Africa. Severstal has legal entities registered in various jurisdictions and the overall



<sup>1</sup> This chapter presents only key risks and does not give an exhaustive account of all risks facing the Company.

political climates in the countries of our operation differ significantly, as do limitations on business activities and assets expropriation; confiscation rules; monetary systems and their potential for negative change; and potential crisis factors. In addition, governments may establish new trade barriers, which could have a negative impact on our export or import operations. Other political risks that could affect our operations include potential conflicts, terrorist acts, social unrest, and the introduction of a state of emergency. Although to date none of these have directly affected our business, they could have an adverse impact on our business, financial position and operational results. The recent political development in Ukraine where Severstal has a small metalware business titled Dneprometiz may affect these operations. Dneprometiz accounts for around 10% of our total metalware output and less than 1% of the Group's total EBITDA in FY2013. At the time of this Annual Report's publication Dneprometiz was operating as normal without interruptions. We will continue to monitor the situation and take necessary mitigating efforts if required.

Due to the recent developments in Ukraine, the USA and EU in March 2014 imposed sanctions on selected Russian individuals and one Russian bank. Statements of the US and EU officials in the media indicate that implementation of further restrictions on select areas of the Russian economy are being considered. Before imposed, it's impossible for us to evaluate the magnitude of downside risks for our business in Russia and the USA. At the time of this Annual Report's publication it remains business as usual for Severstal and Severstal North America. We will continue to monitor the situation and take necessary mitigating efforts if required.

#### Mitigating factors:

- The majority of our production facilities and business operations are located in regions and countries with stable political and social systems.
- Severstal's investment policy considers regional political risks.
- All of our operational and investment decisions involve proper on-going risk assessment and monitoring. In those countries experiencing political instability, we undertake additional risk mitigation measures, including specialised types of insurance against political risks.

#### Economic risks

The global GDP in 2013 grew by three per cent which is 0.1 per cent lower than in 2012, according to the International Monetary Fund. Activity is expected to improve further in 2014–15, largely on account of recovery in economically advanced economies. Global growth is now projected to be slightly higher in 2014, at around 3.7 per cent, rising to 3.9 per cent in 2015. But downward revisions to growth forecasts in some economies highlight continued fragilities, and downside risks remain.

Across the 28-strong European Union, GDP stagnated in 2013 (after falling by 0.5 per cent in 2012) and may expand by 1.4 per cent in 2014, according to new forecasts from the European Commission on November 5th 2013. Across the euro area a recovery is underway following a double-dip recession lasting 18 months, but it is a feeble one. For the full year of 2013 GDP is expected to have fallen by 0.4 per cent (after declining by 0.7 per cent in 2012). It will then rise by 1.1 per cent in 2014. The European PMI is also on a strong path to recovery.

As was the case in 2013, growth in 2014 will be strongest in Latvia (4.1 per cent), which joined the euro area on January 1st 2014. The

three Baltic states—including Lithuania outside the eurozone and Estonia within it—will be the three fastest-growing countries in the EU, experts say. Severstal has a solid presence in Latvia via its direct subsidiary – the steel processor and trader Severstallat.

The U.S. economy expanded by 1.9% in 2013 as healthy consumer spending more than offset weaker government spending and slower inventory building. In 2014 U.S. GDP is expected to accelerate to 2.8 per cent (according to IMF forecasts at of January 2014). Fiscal drag in the U.S. economy is coming to an end which creates good growth opportunities. Non-residential construction is ready for a long-awaited recovery.

China's GDP grew by 7.6 per cent in 2013, according to the Chinese Government. That figure has exceeded previous estimates of GDP growth of 7.5 per cent, while being lower than the country's GDP expansion in 2012 of 7.7 per cent.

The global economy faces a number of risks. The U.S. Federal reserve system is exiting from QE3 which creates strong capital outflows from emerging markets and increased currency volatility. At the same time the Chinese economy has a long and bumpy road ahead as it transitions from an investment-oriented economy to a consumer-oriented one. Shadow banking represents a major risk for Chinese financial stability.

Global economic risks can impact the Russian economy. Significant global recession results in reduced demand for oil and gas, metals and other exported raw materials; destabilizes the ruble; and sparks capital outflow from Russia, as well as creating increased inflation, production decline, increased unemployment and increased social risks.

Russia's GDP growth slowed down in 2013, expanding by 1.3 per cent, compared to 3.4 per cent in 2012.

Given the large share of oil and oil products in the Russian export structure, the Russian economy is significantly dependent on price fluctuations for these commodities. In 2013, the average price of Urals oil blend, the main Russian export commodity, was US\$107.9/bbl, which is 2.4 per cent lower than in 2012.

After the weak expansion of the country's GDP in 2013, the Russian Ministry of Economic Development hopes that GDP growth in 2014 will reach 2.5 per cent.

#### Mitigating factors:

- The geographic diversification of our sales helps to minimise the negative impact of economic risks. Severstal's Russian steel assets are located quite close to export routes meaning that we always have an export alternative for the sale of our products. That enables us to have a higher average steel product selling price than some of our local peers. Though the domestic market is our primary focus, our ability to quickly redirect shipments provides more flexibility in reacting to external factors, and helps us to insure against sudden regional crises.
- Possible weakening of the Russian ruble might have a positive effect on our operations, as our cost structure is predominantly ruble-denominated.
- We monitor the most important advanced indicators of economic slowdown.
- We are working to develop economic scenarios that will help us to prepare our management team for possible negative changes to the external environment.

### Market risks

#### Industry cyclicality and demand fluctuations

Steel demand depends on the economic situation in different regions and demand in steel-consuming industries. Severstal is highly sensitive to changes in the automotive, machinery, building and pipe industries as these are key steel-consuming industries.

In 2013, the Russian steel consumption grew by an estimated two per cent, according to industry experts, and a similar growth by 2-3 per cent is forecast for 2014. Domestic steel production reached 69.5 million tonnes in 2013, one per cent lower than in 2012.

Risks of poor performance are increasing in investment-driven sectors of the Russian economy. Investment activity decreased moderately by 0.3 per cent in 2013, prospects for 2014 are quite uncertain due to the impact of geopolitical tensions. Automotive production increased by 5.8 per cent year on year in 2013 due to the output of trolleybuses and trailers. At the same time, production of passenger cars and trucks diminished. Higher competition in the passenger car market led to a falling share of Russian brands. The cargo coaches market entered oversupply which resulted in lower production. The value of construction works decreased in 2013, however residential houses completion was up by 5.4 per cent year on year. Taking into account the fact that residential construction consumes about 80 per cent of construction steel volumes, the risks of slowdown in non-residential construction are more than compensated for by possible growth in the residential segment. The pipes and tubes sector demonstrated growth in 2013 on the back of oil drilling and tube shapes.

Mitigating factors:

- Severstal has adopted a new strategy in 2013 focusing more on customer care and cost-cutting measures to increase the efficiency of its operations. That has allowed us to increase our market share in some segments.
- In 2013, we redesigned our sales and distribution chain in Russia. We hope these initiatives will allow us to increase our market share in the domestic market in the future and increase profitability.
- We are monitoring the global market and are ready to increase export sales if necessary. In 2009, Severstal demonstrated its ability to redirect commodity flows from domestic to external markets, leveraging its cost-efficient production methods.
- Severstal is focusing on supplying steel to foreign carmakers in Russia which represent the fastest-growing sector compared to domestic car production.

#### Changes to sale prices

The steel and mining industries are highly susceptible to cyclical changes in steel prices.

Our operations depend heavily on changes in rolled steel and steel products prices in both domestic and world markets.

In 2013, world steel prices continued to decline. Prices fell by 4-6 per cent in comparison with the average 2012 price. The primary reasons for the price drop were steel overcapacity, falling hard coking coal prices due to oversupply and the continued weakness of the global economy. The annual average price of hot rolled coil in 2013 was US\$543 per tone (FOB Black Sea) and US\$694 per tone (US domestic).

Mitigating factors:

- We were able to moderate the negative impact of the adverse economic situation, and to quickly overcome the consequences of the crisis.
- We made major efforts to manage working capital effectively, increase operational effectiveness, use raw materials and energy effectively, increase labour productivity, closely control costs, focus on customers (quality of production and service), and increase our production of high-value-added goods whose prices are less sensitive to economic fluctuations.
- Possible weakening of the Russian ruble might have a positive effect on our operations, as our cost structure is predominantly ruble-denominated. A weaker ruble also increases our strength as an exporter.
- We also strengthened our position in most prospective product niches, which have competitive conditions and an attractive supply-demand balance. Our comparatively low production costs help us to mitigate the risk of steel price fluctuations.
- To reduce the influence of sharp market fluctuations on our revenue, management initiated the Foresight project to improve employee understanding of our markets, and an Early Warning System to predict short-term price fluctuations three months in advance. We devote special attention to raw materials price forecasting, as this helps us coordinate our purchasing strategy in line with market trends.
- We closely consider the dynamics of leading indicators which signal possible future price changes. In certain markets we diversify our sales commitments between spot market and contract-based pricing to limit exposure to price volatility.

#### Fluctuations in raw materials, energy and services prices

On the one hand, Severstal requires substantial amounts of raw materials for steel production, in particular coking coal and iron ore, alloys and fluxes, natural gas, electric energy and industrial oxygen. On the other hand, Severstal is a sizable seller of coking coal and iron ore pellets to third parties.

In 2013, coking coal and iron ore prices declined globally. That had a positive effect on the cost of production at our Russian steel assets. While on the other hand, our mining assets generated smaller earnings in 2013 than in 2012.

In 2013, the contract price for Australian coking coal decreased by 25 per cent to US\$159/ a tonne FOB. This was the result of massive coal inventories accumulated in China because of strong domestic production. Other reasons included a depreciating Australian dollar, decreasing costs of Australian producers and growth of Australian coking coal supply. In 2014, coking coal prices are expected to continue to fall. In the first two months of 2014, the spot price of Australian coking coal fell by almost 10 per cent to US\$120 per tonne FOB Australia.

In 2013, the iron ore market demonstrated significant strength on the back of growing steel production in China, increasing by 7.5 per cent year on year. The iron ore price increased by four per cent to US\$135 per tonne CFR China compared to the drop of 23 per cent in 2012. However, in the first two months of 2014 iron ore prices declined to below US\$120 a tonne due to weak steel production in China, negative steel market sentiments and increasing supply from Australia.



In 2013 scrap prices declined by eight per cent compared to the previous year due to lower steel prices which undermined demand for scrap. At the same time scrap supply was sufficient both in the USA and Russia. In 2014 scrap prices are expected to decrease by three per cent year-on-year followed by lower raw material (iron ore, coking coal) prices. Prices changed throughout the year. In the summer prices would slide due to comfortable weather conditions for collecting and delivering scrap with further recovery in autumn as a result of restocking at mills before the year end.

Supply volumes and the timeliness of their delivery can heavily impact operations; however, Severstal has little control over these factors. Severstal's activities have been heavily affected by reduced steel production levels brought on by reduced demand as well as slight fluctuations in raw materials and energy prices and high transportation costs. In addition, Severstal's contractors include natural monopolies (electrical energy and natural gas providers and railroad companies), whose rates are set and adjusted by the federal government: this could lead to increased prices for gas and electricity and higher transportation costs where railroad services are limited.

Mitigating factors:

- Our primary goal in mining is to decrease the cost of producing our assets. We have achieved good progress in 2013 via cost cutting initiatives and the redesign of business processes. In 2014-2015 we hope to see further cash cost reduction in mining as we will be completing our major investment projects.
- Possible weakening of the Russian ruble might have a positive effect on our operations, as our cost structure is predominantly ruble-denominated. A weaker ruble also increases our strength as an exporter.
- We manage sector risks related to the provision of raw materials and services by establishing long-term mutually advantageous contracts with key suppliers, optimising purchasing processes and conducting continuous inventory management. Most of our purchasing contracts for primary raw materials (pellets, iron ore and coking coal) are for a period of at least one year.
- High reliance on our own iron ore, coking coal and scrap supplies helps us to mitigate raw material price rises.
- Our heavier reliance on Russian suppliers helps us to gain lower domestic prices.

#### Competition risks

As mentioned above, during 2013, the global economy, steel and commodity markets were in a very challenging position. The weakness of some economies allowed their central banks to devalue national currencies. As a result, the competitiveness of some steel-makers and miners increased in 2013.

Our Competition risks are as follows: low-cost producers can potentially reduce prices in order to gain market share, and competitors' M&A deals can affect the competitive environment. The consolidation of niche-product manufacturers can create new entry barriers and complicate Severstal's development in some markets. Artificial barriers set by local authorities can complicate entrance into new markets and increase existing market share.

The main peculiarity of the Russian market is its isolated nature, which is the result of factors such as a weak logistics infrastructure and strict certification requirements.

Nevertheless, the Russian market is vulnerable to interventions by external producers of high value-added rolled stock (especially from China). The events of 2008 and the first half of 2010 illustrate this fact: during these periods Chinese imports occupied more than half of the Russian high value-added rolled products market. However, Russian domestic steel players are able to protect the local market from damping from time to time. In 2013, an import duty was imposed on Chinese color-coated steel.

The development and appearance of new steel-consuming technologies potentially provides Severstal with more opportunities. However, competition on these markets has become increasingly fierce as markets mature.

Increased pressure comes from competition from substitute products (concrete, plastics, aluminium), which is currently growing. Mitigating factors:

- We continue with our client retention project which focuses on helping us to obtain a better understanding of clients' needs, and improving our corporate image which will help us to compete more effectively domestically and globally.
- We also continue to diversify our steel product capability in our major markets, as demonstrated by the recent modernisation program in North America.

#### Credit risks

##### Counterparty risks: clients

Our practice of selling products on deferred payment terms exposes us to credit risks (clients' default).

Mitigating factors:

- We have developed and implemented policies and procedures to manage credit risks, including credit committee approval and on-going credit evaluation of the customer base.
- Credit committee approval is required prior to the sale of products to key customers under deferred payment terms. When necessary, we use collateralisation or risk transference arrangements (for example, bank guarantees from approved institutions, letters of credit, or credit insurance).

##### Counterparty risks: financial institutions

The bankruptcy or insolvency of major banks we work with could adversely affect our business. Another banking crisis or the bankruptcy or insolvency of any major banks at which we hold funds could result in a loss of income for several days, or affect our ability to complete banking transactions. Furthermore, any shortages of funds or other banking disruptions experienced by our major bank-partners could have a material adverse effect on our ability to execute planned developments or to obtain the financing required for our planned growth. All the above factors could have a material adverse effect on our business, financial position, operational results and future prospects.

Mitigating factors:

- Severstal has centralised bank risk management procedures
- In order to minimise the potential risk of bank default, we hold liquid assets in several internally approved world class banks under flexible conditions with the right of early withdrawal.
- Severstal cooperates with financial institutions based on credit risk limits established on a regular basis. These limits are de-

terminated and regularly approved by the committee, according to internal procedure.

- We regularly monitor the financial standing of banks and the overall financial environment to help to foresee defaults and minimise the potential negative impact.

### Interest rate fluctuations

Financial market volatility and low economic recovery rates could limit Severstal's access to external creditors, which could affect current debt refinancing and operational activity financing. Increased liabilities on loans could negatively affect Severstal's financial indicators and decrease cost efficiency. Our debt financing interest rates are either fixed or variable, with a fixed spread over LIBOR, EURIBOR or MOSPRIME.

Mitigating factors:

- By maintaining a diversified debt portfolio we minimize the potential adverse effects of interest rate fluctuations. We also monitor the economic environment closely, and current debt trends on the capital markets. Severstal operates all necessary tools to convert variable rates to fixed and vice versa in key loan agreements.
- We can also use our existing cash cushion to repay debts affected by adverse interest rate changes.
- The risk of interest rate fluctuations is remote as most of Severstal's debt is fixed-rate long term debt. As of 31.12.13 89 per cent of Severstal's total debt had fixed interest rates.

### Foreign currency exchange rate fluctuations

Severstal is exposed to translation and transactional foreign currency exchange rate risks. Translation risks arise when assets and liabilities are translated into currencies other than US dollar amounts for financial reporting purposes. Transaction risks arise as a result of payments we make or receive in foreign currencies. Currently, our operations in foreign currencies balance, i.e. revenues, expenses and borrowings related to international operations are all denominated in the same currency. Revenue from our Russian operations are denominated in rubles, US dollars and euros, with meaningful fluctuations year on year.

Our expenses are mostly in rubles, and our borrowings are in US dollars and euros. As we report our financial results in US dollars, and frequently exchange or translate foreign currency into rubles or rubles into foreign currencies, exchange rate fluctuations could have a material adverse effect on our business, financial position, operational results and future prospects.

Mitigating factors:

- Our existing natural hedge of export sales against financing in US dollars or euros covers much of the existing rouble-dollar exposure of our Russian operations.

### Credit agreement provisions

Credit agreements signed by Severstal include provisions triggering default in the case of material adverse changes or covenant violations.

Mitigating factors:

- We regularly monitor possible non-financial and financial covenant violations on the basis of our internal system of covenant compliance control and business plan.

- We amend agreement provisions or obtain waivers, if required, to prevent defaults and adverse impacts on our financial statements.

### Investment effectiveness

Steel production and mining are capital intensive businesses. We have undertaken a capital expenditure programme focused on modernising and developing our existing steel production and mining facilities. We plan to rely on cash generated from our operations, and on external financing, to provide the capital needed for the programme. However, there is no assurance that we will be able to generate adequate cash from operations, or that external financing, if necessary, will be available on reasonable terms.

In addition, our capital expenditure programme is subject to a variety of potential problems and uncertainties. These include changes in economic conditions, delays in completion or delivery, cost overruns, and defects in design or construction, all of which may create the need for additional cash investment. Fluctuations in prices or on the loan market could negatively affect investment project implementation deadlines.

Furthermore, our capital expenditure programme includes plans to acquire significant amounts of new equipment, including more advanced technologies. While such new production equipment and technologies are aimed at increasing the operational performance of our facilities, there can be no assurance that the equipment will meet its intended production targets on a timely basis, or at all, and this could result in reduced production, delays or additional costs. Moreover, in financing the programme, we may incur a substantial amount of additional debt, the interest and principal repayments on which may become a significant drain on our cash flow. The failure or delay of our capital expenditure programme, or significant increases in financing costs arising from programme funding, could have a material adverse effect on our business, financial position and operational results.

Mitigating factors:

- To mitigate technical and technological risks, we carefully select construction and equipment installation contractors.
- Under our company-wide development program, we regularly assess employees and provide necessary training.
- In response to the recent global economic downturn, we reduced our investment programme, protected our cash position and focused on the maintenance, repair and modernisation of equipment and near-deadline projects.

### Mergers and acquisitions

Severstal has grown rapidly and we intend to pursue opportunities to grow our operations through further acquisitions. However, there can be no assurance that we will be able to identify suitable acquisition targets or successfully integrate acquired companies.

In recent years, we have increased our ownership interests in a number of companies, and acquired other companies, businesses and production assets. In particular, Severstal Resources has acquired a number of mining operations. We may consider future acquisitions of assets or companies that we believe are aligned with our corporate strategy and financial targets and offer significant potential synergies. In particular, we are considering growth opportunities in emerging markets.

The success of past, current and future acquisitions will depend on our ability to manage the assimilation of the acquired assets or companies into our operations, despite the inherent difficulties, such as:

- existing operational inefficiencies
- cultural differences
- personnel redundancies
- incompatibility of equipment and information technology
- production failures or delays
- loss of significant customers
- difficulties with minority shareholders in acquired companies and their material subsidiaries
- potential disruption to Severstal's business
- assumption of liabilities relating to the acquired assets or businesses
- possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities
- impairment of relationships with employees and counterparties as a result of difficulties arising from integration
- poor records or internal controls
- difficulties in establishing immediate control over cash flows.

Furthermore, there can be no assurance that we will be able to achieve the targeted synergies in our operations with recent or planned acquisitions.

### Social risks

Our business depends on good relations with employees. A breakdown in these relations, or restrictive labour and employment laws, could have a material adverse effect on our operations.

Although we believe that relations with our employees are good, there can be no assurance that a work slowdown or stoppage will not occur at one of our operating units or exploration prospects. At most of our business units, there are collective bargaining agreements in place with labour unions. Any future work stoppages, disputes with labour unions or other labour-related developments or disputes, including renegotiation of collective bargaining agreements, could result in a decrease in our production levels. They could also lead to adverse publicity or an increase in costs, which could have a material adverse effect on our business, financial position and operational results.

Mitigating factors:

- We devote significant attention to staff support and development programmes.
- We undertake sociological surveys (employee satisfaction), create conditions for the development and fulfilment of employee working potential, and implement social assistance programmes.
- Employee benefit programmes in different parts of our business include employee healthcare programmes, maternity and childcare support, catering and the organisation of recreational activities, social assistance for retired staff and veterans, staff education and development, and social benefits for outstanding employees.

### Health, safety and environmental risks

Severstal operates industrial facilities that harbour heavy metals or hazardous substances which may present significant risks to the health or safety of neighbouring populations and to the environment. In this respect, we have in the past, and may in the future, incur liabilities for having caused injury or damage to persons or property, or for polluting the environment.

Although we have made provisions for such potential liabilities, there can be no assurance that the amounts covered by such provisions will be sufficient in the future, due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. Achieving environmental compliance at sites that are currently in operation, or that have been decommissioned, entails a risk that could generate substantial financial costs for us. The competent authorities have made, are making, or may in the future make, specific requests that we carry out environmental improvement works. These include cleaning up and rehabilitating sites, and controlling emissions at sites where we are currently operating, or where we have operated in the past. Fulfilling these obligations, we may incur significant costs, which could have a material adverse effect on our business, financial position and operational results.

Additional or stricter environmental rules and regulations may significantly increase the cost of compliance. Our steel-making plants and mining operations involve potential environmental problems, including the generation of pollutants and the storage and disposal of wastes and other hazardous materials. As a result, we must comply with stringent regulatory requirements necessitating the commitment of significant financial resources, and we expect that the global trend towards stricter environmental laws and regulations will continue. Any significant increase in the cost of complying with such environmental rules and regulations in the future could have a material adverse effect on our business, financial position and operational results.

Mitigating factors:

- We adopted a unified health, safety and environmental (HSE) protection policy in 2008. This policy includes efficient HSE management systems and standards, setting objectives and targets, and identifying, assessing and managing HSE hazards and risks. It also sets obligations for Severstal, such as:
  - o Strive to work without fatal accidents
  - o Decrease accidents with losses of labour capacity
  - o Decrease accidents with time losses
  - o Develop and implement effective HSE management systems
  - o Initiate an HSE internal control system.
- To ensure compliance with the HSE policy Severstal will:
  - o Introduce annual HSE planning
  - o Promote an HSE culture by implementing HSE audits
  - o Extend managers' responsibility for organising and supporting the HSE system and controls on all levels
  - o Use leading experience and technologies for prevention and to decrease our negative impact on the environment
  - o Initiate staff coaching, adaptation, etc.



- Severstal conducted the centralised monitoring and efficiency analysis of implemented HSE activities. Immediate corrective measures were taken where deficiencies were identified.
- Severstal HSE activities comply with international legislation, laws and norms in operating regions, provided terms conditions and client expectations. Severstal provides:
  - o Compulsory insurance of employees against accidents and professional diseases
  - o Compulsory insurance of company responsibilities
  - o Insurance against equipment shutdowns and lost revenues risks.

### Legislative and regulatory risks

#### Taxes

Russian tax legislation is amended or corrected annually. Changes to legislation can both benefit or hinder business.

Current Russian tax legislation provides effective tools for taxpayer protection, and Severstal makes extensive use of these tools.

Internationally, risks could arise for Severstal on the domestic market and on external markets, as the tax legislation of any country can be changed and amended over time. However, risks connected with foreign tax legislation changes are partially mitigated by Severstal being registered in Russia for tax purposes. Near-term exposure within the US is limited as a result of the existence of considerable tax loss carryforwards.

#### Property law

Russian property law, in particular in relation to private land ownership and use, is less developed than that in more developed market economies (e.g. North America and Europe). In Russia, land use and title systems are rather complex, and as a result, the status of titles to land targeted for use of ownership by Severstal may be unclear or in doubt. Moreover, we run the risk that our right to the title or use of our properties may be challenged or invalidated due to technical errors or defects in title documents. This lack of developed legislation creates operational uncertainties in emerging markets, which could hinder Severstal's long-term planning abilities and prevent us from successfully implementing our business strategy. Should relevant approvals, consents, registration certificates or other documents be missing or be found to be erroneous, we could lose the right to use property. This could have a material adverse effect on our business, financial position and operational results.

#### Licence agreements

Our business depends on the continuing validity of our licences, the receipt of new licences and our compliance with the terms of our licences, including subsoil licences for our mining operations in Russia. Regulatory authorities exercise considerable discretion in the timing of licence issuing and renewal, and in monitoring licensees' compliance with licence terms. The requirements imposed by these authorities may be costly and time-consuming, and may result in delays in starting or continuing exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities, and the procedures by which licences are issued, are often arguably inconsistent with legislation.

In addition, our business outside of Russia also depends on the

continuing validity of licences, the receipt of new licences and compliance with the terms of such licences, which may involve uncertainties and additional costs for us. Any or all of these factors may affect our ability to obtain, maintain or renew the necessary licences. If we are unable to obtain, maintain or renew the necessary licences, or can obtain or renew them only with newly introduced material restrictions, we may be unable to benefit fully from our reserves, and this could have a material adverse effect on our business, financial position and operational results.

Mitigating factors:

- We base our activities, Russian and international, on strict adherence to all applicable laws and regulations (e.g. tax, customs and currency control). We ensure monitoring and timely, appropriate reaction to changes, and strive to maintain constructive dialogue with regulators on issues of interpreting and implementing laws and regulations.
- In particular, we work with Russian federal and local authorities, and participate in the Russian Union of Industrialists and Entrepreneurs and various ad hoc governmental committees. Our international activities are analysed both by in-house lawyers and respectable local or international law firms. We always hold negotiations with government bodies, such as anti-trust, financial and securities market authorities, in good faith and in strict compliance with their regulations, to maintain long-term constructive dialogue.
- Severstal business includes different types of activities, some of them subject to licensing. With regard to organisation and technology, Severstal business processes conform to the highest standards, and as such there is low risk of the stiffening of license requirements and conditions.
- It should be noted, that the Russian government has begun cutting the number of activities subject to licensing, and simplifying licensing procedures.
- From the above, we could conclude that changes to licensing requirements or the necessity for additional licensing of several activities would lead to additional costs on obtaining new licenses or renewing existing ones. However, related risks are minimal.
- The risk of necessity to license activities on external markets is also minimal.









# Financial statements



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# **OAo Severstal and subsidiaries**

## **Consolidated income statements**

Years ended December 31, 2013, 2012 and 2011

(Amounts expressed in thousands of US dollars, except as otherwise stated)

		Year ended December 31,		
	Note	2013	2012*	2011*
<b>Revenue</b>				
Revenue – third parties		<b>13,165,732</b>	13,915,605	15,573,090
Revenue – related parties	10	<b>145,870</b>	188,101	239,310
	4	<b>13,311,602</b>	14,103,706	15,812,400
Cost of sales		<b>(10,339,416)</b>	(10,785,292)	(10,903,222)
<b>Gross profit</b>		<b>2,972,186</b>	3,318,414	4,909,178
General and administrative expenses		<b>(638,996)</b>	(749,337)	(718,533)
Distribution expenses		<b>(940,229)</b>	(1,048,395)	(1,101,191)
Other taxes and contributions		<b>(139,122)</b>	(134,266)	(145,854)
Share of associates' and joint ventures' (loss)/profit		<b>(14,760)</b>	1,993	7,319
Gain/(loss) on disposal of property, plant and equipment and intangible assets		<b>11,961</b>	(25,962)	(20,939)
Net other operating income/(expenses)		<b>7,307</b>	20,283	(547)
<b>Profit from operations</b>		<b>1,258,347</b>	1,382,730	2,929,433
(Impairment)/reversal of impairment of non-current assets	7	<b>(355,697)</b>	(54,117)	438
Net other non-operating expenses	8	<b>(50,278)</b>	(70,536)	(65,381)
<b>Profit before financing and taxation</b>		<b>852,372</b>	1,258,077	2,864,490
Finance costs, net	6	<b>(346,598)</b>	(384,666)	(398,536)
Foreign exchange (loss)/gain, net		<b>(349,984)</b>	163,510	(36,980)
<b>Profit before income tax</b>		<b>155,790</b>	1,036,921	2,428,974
Income tax expense	9	<b>(66,587)</b>	(263,485)	(466,012)
<b>Profit from continuing operations</b>		<b>89,203</b>	773,436	1,962,962
Profit from discontinued operations	26	<b>-</b>	46,363	210,773
<b>Profit for the period</b>		<b>89,203</b>	819,799	2,173,735
<b>Attributable to:</b>				
shareholders of OAo Severstal		<b>82,728</b>	761,962	2,034,833
non-controlling interests		<b>6,475</b>	57,837	138,902
Basic and diluted weighted average number of shares outstanding during the period (millions of shares)	25	<b>810.6</b>	839.8	1,005.2
Basic and diluted earnings per share (US dollars)		<b>0.10</b>	0.91	2.02
Basic and diluted earnings per share – continuing operations (US dollars)		<b>0.10</b>	0.87	1.89
Basic and diluted earnings per share – discontinued operations (US dollars)		<b>-</b>	0.04	0.13

\* These amounts reflect adjustments made in connection with the change in presentation described in Note 2 of these consolidated financial statements.

To view the full version of the Financial Statements of the Company for the period of FY2013, pls. follow: <http://www.severstal.com/eng/ir/> (see «Results and Reports» section)

## OA0 Severstal and subsidiaries

### Consolidated statements of comprehensive income

Years ended December 31, 2013, 2012 and 2011

(Amounts expressed in thousands of US dollars, except as otherwise stated)

	Year ended December 31,		
	2013	2012	2011
<b>Profit for the period</b>	<b>89,203</b>	819,799	2,173,735
<b>Other comprehensive (loss)/income:</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses	(8,068)	(32,645)	(8,884)
Translation to presentation currency	(225,148)	158,598	(398,645)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(233,216)</b>	125,953	(407,529)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Translation to presentation currency - foreign operations	92,170	117,955	(8,600)
Changes in fair value of cash flow hedges	(2,965)	2,303	1,109
Deferred tax on changes in fair value of cash flow hedges	422	(405)	(120)
Changes in fair value of available-for-sale financial assets	(569)	4,503	(20,158)
Deferred tax on changes in fair value of available-for-sale financial assets	467	(380)	4,850
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>89,525</b>	123,976	(22,919)
<b>Items that were reclassified to profit or loss</b>			
Realised gains on disposal of available-for-sale financial assets	(2,111)	-	-
Reclassification of the Gold segment's reserves to profit from discontinued operations (Note 26)	-	(76,089)	-
<b>Total items that were reclassified to profit or loss</b>	<b>(2,111)</b>	(76,089)	-
<b>Other comprehensive (loss)/income for the period, net of tax</b>	<b>(145,802)</b>	173,840	(430,448)
<b>Total comprehensive (loss)/income for the period</b>	<b>(56,599)</b>	993,639	1,743,287
Attributable to:			
shareholders of OA0 Severstal	(60,624)	921,155	1,628,462
non-controlling interests	4,025	72,484	114,825

To view the full version of the Financial Statements of the Company for the period of FY2013, pls. follow:  
<http://www.severstal.com/eng/jir/> (see «Results and Reports» section)

# **OA0 Severstal and subsidiaries**

## **Consolidated statements of financial position**

December 31, 2013, 2012 and 2011

(Amounts expressed in thousands of US dollars, except as otherwise stated)

		December 31,		
	Note	2013	2012	2011
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	12	1,035,948	1,726,275	1,863,538
Short-term financial investments	13	60,016	23,778	10,500
Trade accounts receivable	14	1,356,916	1,040,567	1,219,961
Accounts receivable from related parties	11	18,620	15,468	27,349
Restricted financial assets		1,114	-	-
Inventories	15	2,018,760	2,352,898	2,519,154
VAT recoverable		119,151	214,419	193,885
Income tax recoverable		19,048	21,169	90,916
Other current assets	16	276,863	302,120	327,163
Assets held for sale	26	-	-	2,677,310
<b>Total current assets</b>		<b>4,906,436</b>	<b>5,696,694</b>	<b>8,929,776</b>
<b>Non-current assets:</b>				
Long-term financial investments	17	115,481	108,060	182,262
Investments in associates and joint ventures	18	256,671	316,503	301,315
Property, plant and equipment	19	8,254,192	8,462,711	7,463,394
Intangible assets	20	678,910	820,935	770,454
Restricted financial assets		39,478	32,970	22,638
Deferred tax assets	9	78,118	100,796	99,651
Other non-current assets		204,441	168,546	140,301
<b>Total non-current assets</b>		<b>9,627,291</b>	<b>10,010,521</b>	<b>8,980,015</b>
<b>Total assets</b>		<b>14,533,727</b>	<b>15,707,215</b>	<b>17,909,791</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable		1,145,873	1,057,621	1,115,110
Accounts payable to related parties	11	42,998	36,234	1,583,031
Short-term debt finance	21	627,519	1,382,128	1,185,467
Income taxes payable		10,660	16,604	28,086
Other taxes and social security payable		138,657	152,590	141,353
Dividends payable		28,065	86,538	111,208
Other current liabilities	22	555,401	637,947	655,420
Liabilities related to assets held for sale	26	-	-	550,123
<b>Total current liabilities</b>		<b>2,549,173</b>	<b>3,369,662</b>	<b>5,369,798</b>
<b>Non-current liabilities:</b>				
Long-term debt finance	21	4,126,575	4,327,412	4,790,631
Deferred tax liabilities	9	312,736	338,078	287,126
Retirement benefit liabilities	23	189,913	201,552	161,734
Other non-current liabilities	24	355,073	255,268	233,179
<b>Total non-current liabilities</b>		<b>4,984,297</b>	<b>5,122,310</b>	<b>5,472,670</b>
<b>Equity:</b>				
Share capital	25	2,752,728	2,752,728	3,311,288
Treasury shares		(235,657)	(235,657)	(1,586,293)
Additional capital		315,922	315,922	1,165,530
Translation reserve		(542,186)	(411,658)	(642,228)
Retained earnings		4,692,475	4,767,325	4,386,461
Other reserves		1,044	5,800	44,738
<b>Total equity attributable to shareholders of OA0 Severstal</b>		<b>6,984,326</b>	<b>7,194,460</b>	<b>6,679,496</b>
<b>Non-controlling interests</b>		<b>15,931</b>	<b>20,783</b>	<b>387,827</b>
<b>Total equity</b>		<b>7,000,257</b>	<b>7,215,243</b>	<b>7,067,323</b>
<b>Total equity and liabilities</b>		<b>14,533,727</b>	<b>15,707,215</b>	<b>17,909,791</b>

To view the full version of the Financial Statements of the Company for the period of FY2013, pls. follow: <http://www.severstal.com/eng/ir/> (see «Results and Reports» section)



# **OA Severstal and subsidiaries**

## **Consolidated statements of cash flows**

Years ended December 31, 2013, 2012 and 2011

(Amounts expressed in thousands of US dollars, except as otherwise stated)

	Year ended December 31,		
	2013	2012*	2011*
<b>Operating activities:</b>			
Profit before financing and taxation	852,372	1,258,077	2,864,490
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization	788,231	726,045	646,821
Impairment/(reversal of impairment) of non-current assets (Note 7)	355,697	54,117	(438)
Movements in provision for inventories, receivables and other provisions	(29,644)	128,333	34,295
(Gain)/loss on disposal of property, plant and equipment and intangible assets	(11,961)	25,962	20,939
Loss/(gain) on disposal of subsidiaries and associates (Note 27)	1,195	(9,873)	(21,033)
Share of associates' and joint ventures' results less dividends from associates and joint ventures	25,509	6,839	16,176
Changes in operating assets and liabilities:			
Trade accounts receivable	(366,907)	228,989	(280,836)
Amounts receivable from related parties	(3,847)	1,340	(59,578)
VAT recoverable	87,832	(39,866)	42,708
Inventories	246,277	153,922	(535,842)
Trade accounts payable	81,581	(155,580)	272,951
Amounts payable to related parties	4,515	(198)	11,290
Other taxes and social security payable	(863)	7,841	22,882
Other non-current liabilities	(37,999)	(8,342)	3,335
Assets held for sale	-	-	7,242
Net other changes in operating assets and liabilities	36,510	2,035	94,406
<b>Cash generated from operations</b>	<b>2,028,498</b>	<b>2,379,641</b>	<b>3,139,808</b>
Interest paid	(386,524)	(429,638)	(448,719)
Income tax paid	(64,067)	(191,391)	(514,150)
Net cash from operating activities - continuing operations	1,577,907	1,758,612	2,176,939
Net cash (used in)/from operating activities - discontinued operations	-	(8,253)	402,496
<b>Net cash from operating activities</b>	<b>1,577,907</b>	<b>1,750,359</b>	<b>2,579,435</b>
<b>Investing activities:</b>			
Additions to property, plant and equipment	(1,061,794)	(1,336,450)	(1,609,493)
Additions to intangible assets	(115,958)	(111,729)	(106,722)
Net decrease in short-term bank deposits	-	-	13,150
Additions to financial investments and associates	(49,759)	(103,920)	(40,619)
Net cash inflow from disposals of subsidiaries (Note 27)	3,628	-	96,994
Proceeds from disposal of property, plant and equipment	57,226	8,762	16,722
Proceeds from disposal of financial investments	15,147	364,262	7,892
Interest received	26,173	105,825	44,236
Dividends received	4,856	13,742	28,435
Cash used in investing activities - continuing operations	(1,120,481)	(1,059,508)	(1,549,405)
Cash used in investing activities - discontinued operations	-	(42,518)	(352,115)
<b>Cash used in investing activities</b>	<b>(1,120,481)</b>	<b>(1,102,026)</b>	<b>(1,901,520)</b>
<b>Financing activities:</b>			
Proceeds from debt finance	3,149,086	2,825,787	2,000,414
Repayment of debt finance	(4,070,475)	(3,098,195)	(2,010,250)
Repayments under lease obligations	(2,485)	(4,542)	(8,020)
Dividends paid	(213,246)	(344,396)	(380,162)
Repurchase of issued shares	-	(19,874)	-
Acquisitions of non-controlling interests	(4,083)	(193,883)	(3,020)
Contributions from non-controlling interests	-	-	13,610
Cash used in financing activities - continuing operations	(1,141,203)	(835,103)	(387,428)
Cash used in financing activities - discontinued operations	-	-	(151,626)
<b>Cash used in financing activities</b>	<b>(1,141,203)</b>	<b>(835,103)</b>	<b>(539,054)</b>
Effect of exchange rates on cash and cash equivalents	(6,550)	7,339	(70,852)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(690,327)</b>	<b>(179,431)</b>	<b>68,009</b>
Less change in cash and cash equivalents of discontinued operations	-	42,168	-
Less cash and cash equivalents of discontinued operations and assets held for sale at the end of the period	-	-	(217,133)
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,726,275</b>	<b>1,863,538</b>	<b>2,012,662</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,035,948</b>	<b>1,726,275</b>	<b>1,863,538</b>

\* These amounts reflect adjustments made in connection with the change in presentation described in Note 2 of these consolidated financial statements.

To view the full version of the Financial Statements of the Company for the period of FY2013, pls. follow:  
<http://www.severstal.com/eng/jir/> (see «Results and Reports» section)

# OAO Severstal and subsidiaries

## Consolidated statements of changes in equity

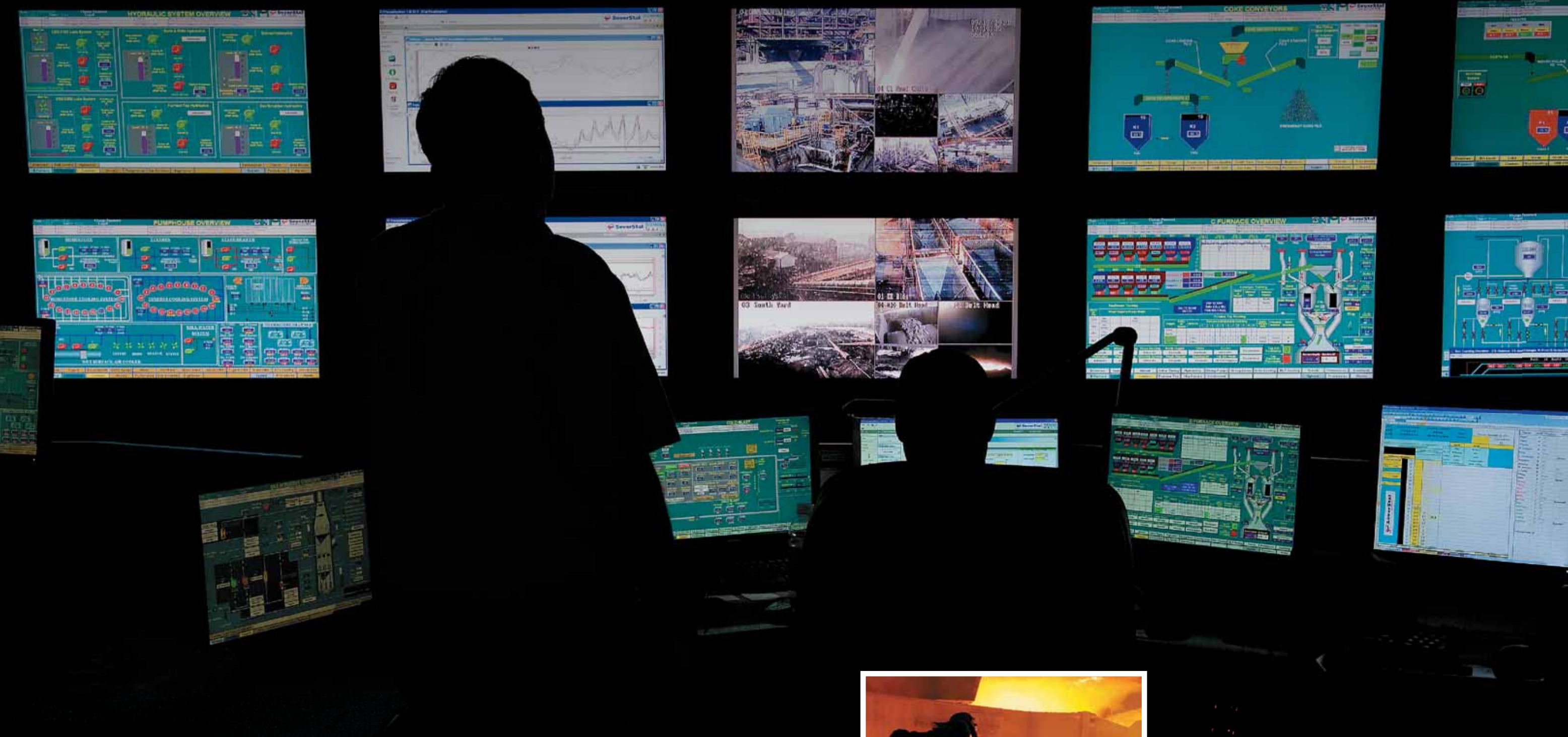
Years ended December 31, 2013, 2012 and 2011

(Amounts expressed in thousands of US dollars, except as otherwise stated)

	Attributable to the shareholders of OAO Severstal						Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total	
<b>Balances at December 31, 2010</b>	3,311,288	(26,303)	1,165,530	(297,219)	2,805,232	76,411	7,034,939	314,714
Profit for the period	-	-	-	-	2,034,833	-	2,034,833	138,902
Translation to presentation currency	-	-	-	(387,822)	-	-	(387,822)	(19,423)
Other comprehensive loss	-	-	-	-	(8,661)	(13,297)	(21,958)	(5,975)
Deferred tax on other comprehensive loss	-	-	-	-	-	3,409	3,409	1,321
Total comprehensive (loss)/income for the period				(387,822)	2,026,172	(9,888)	1,628,462	114,825
Dividends	-	-	-	-	(469,434)	-	(469,434)	-
Gold segment separation (Note 26)	-	(1,559,990)	-	-	-	-	(1,559,990)	-
Effect of acquisitions without a change in control	-	-	-	-	(9,228)	-	(9,228)	(41,712)
Effect of disposals with a change in control	-	-	-	42,813	33,719	(21,785)	54,747	-
<b>Balances at December 31, 2011</b>	3,311,288	(1,586,293)	1,165,530	(642,228)	4,386,461	44,738	6,679,496	387,827
Profit for the period	-	-	-	-	761,962	-	761,962	57,837
Translation to presentation currency	-	-	-	261,700	-	-	261,700	14,853
Other comprehensive loss	-	-	-	(31,130)	(32,439)	(38,153)	(101,722)	(206)
Deferred tax on other comprehensive loss	-	-	-	-	-	(785)	(785)	-
Total comprehensive income/(loss) for the period				230,570	729,523	(38,938)	921,155	72,484
Dividends	-	-	-	-	(311,921)	-	(311,921)	-
Repurchase of issued shares (Note 25)	-	(20,480)	-	-	-	-	(20,480)	-
Cancellation of shares (Note 25)	(558,560)	1,474,965	(916,405)	-	-	-	-	-
Issue of convertible bonds (Note 21)	-	-	66,797	-	-	-	66,797	-
Gold segment separation (Note 26)	-	(103,849)	-	-	-	-	(103,849)	(274,892)
Effect of acquisitions without a change in control	-	-	-	-	(36,738)	-	(36,738)	(164,636)
<b>Balances at December 31, 2012</b>	2,752,728	(235,657)	315,922	(411,658)	4,767,325	5,800	7,194,460	20,783
Profit for the period	-	-	-	-	82,728	-	82,728	6,475
Translation to presentstion currency	-	-	-	(130,528)	-	-	(130,528)	(2,450)
Other comprehensive loss	-	-	-	-	(8,068)	(5,645)	(13,713)	-
Deferred tax on other comprehensive loss	-	-	-	-	-	889	889	-
Total comprehensive (loss)/income for the period				(130,528)	74,660	(4,756)	(60,624)	4,025
Dividends	-	-	-	-	(154,305)	-	(154,305)	-
Effect of acquisitions and disposals without a change in control	-	-	-	-	4,795	-	4,795	(8,877)
<b>Balances at December 31, 2013</b>	<b>2,752,728</b>	<b>(235,657)</b>	<b>315,922</b>	<b>(542,186)</b>	<b>4 692 475</b>	<b>1,044</b>	<b>6,984,326</b>	<b>15,931</b>

To view the full version of the Financial Statements of the Company for the period of FY2013, pls. follow: <http://www.severstal.com/eng/ir/> (see «Results and Reports» section)





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## Shareholder information

**Severstal's shares are traded on the largest Russian exchange – MICEX Stock exchange, which is a part of Moscow Exchange Group. Severstal's shares are also circulated in the form of depositary receipts on the London Stock Exchange and through the PORTAL trading system in the US.**

Stock Exchange	Ticker
MICEX Stock Exchange	CHMF
London Stock Exchange	SVST

Severstal's stocks traditionally contribute to the capitalisation of key indices on the stock exchanges on which the company is listed. Severstal is a solid part of MSCI Russia and FTSE Russia IOB at LSE and makes a sizeable contribution to the MICEX and RTS indices in Russia.

### Severstal contribution to key Indices

Index	Weight*
RTS	0.79 %
MICEX	0.79 %
MSCI Russia	0.86 %
FTSE Russia IOB	0.81 %
Russian Depositary Index	0.76 %
Bloomberg World Iron/Steel Index	1.65 %

\* By March 2014

According to sector analysts, Severstal remained the most popular Russian steel stock at the end of 2013. In 2013, upgrades of analysts' recommendations and target prices were driven by successful cost-cutting, efficiency improvement in the steel and mining segments, the growing results of SNA and increasing share of high value-added products. According to analysts' comments and reports, Severstal still has growth potential despite the challenging market environment. Key investment bank analysts emphasise in their reports that Severstal should be able to deliver more visible improvements on the operational level, as a result of the company's focus on operational efficiency, free cash flow and the implementation of cost-saving measures across all divisions.

Investors and analysts appreciated Severstal's Capital Markets Day which was held in London on November 14, 2013. According to investor feedback, the presentations had sufficient detail and a good level of disclosure and there weren't any subjects or particular detail missing from them. The speeches themselves were clear and straightforward. Most of those who attended Severstal's Capital Markets Day found it good that when presenting at the CMD the Company considers both debt holders and shareholders. Analysts noted in their post CMD reports that the Company was clearly developing the right strategy going forward.

Severstal exhibits the highest daily trade volume among its key Russian peers which reflects the company's strong liquidity position. Severstal's GDRs average daily turnover at LSE was almost US\$12 million while average daily turnover at Moscow Exchange (MICEX) exceeded 452 million roubles in 2013 (approximately US\$13 million).

MICEX	2013	2012
Maximum (closing price), Roubles	397.90	451.60
Minimum (closing price), Roubles	205.40	341.30
At year beginning	389.50	389.00
At year end	319.00	369.10
Change, %	(18 %)	(5 %)
Turnover, Roubles mln	113,128	161,038

LSE	2013	2012
Maximum (closing price), US\$	13.26	15.46
Minimum (closing price), US\$	6.25	10.43
At year beginning	13.25	12.35
At year end	9.88	12.17
Change, %	(25 %)	(2 %)
Turnover, US\$ mln	3,045	4,928

### Share Price at MICEX in 2013, RUB



### GDR Price at LSE in 2013, USD



Severstal won Best Overall Investor Relations at IR Magazine Russia & CIS awards for the second year in a row. The winners of the prestigious IR awards were selected by Thomson Reuters Extel, IR Magazine Russia & CIS's research partner. Independent survey among sell-side and buy-side representatives investing in Russia based companies was open from March 18 to May 3, 2013.



## Credit ratings

Credit rating (Long-term, foreign currency)	Standard & Poor's	Moody's	Fitch
	BB+	Ba1	BB
Latest update	21.06.2012	26.08.2013	06.08.2012
Outlook	Stable	Positive	Stable

## Dividends

Severstal resumed paying dividends in 2010 and according to the dividend policy approved by the Board the company continues to pay dividends of at least 25 per cent of its net income.

Dividends per share and per GDR announced for the periods ended in 2013:

<b>3m 2013</b>	0.43 roubles (US\$ 0.01)
<b>6m 2013</b>	2.03 roubles (US\$ 0.06)
<b>9m 2013</b>	2.01 roubles (US\$ 0.06)
<b>12 m 2013*</b>	3.83 roubles (US\$ 0.11)

\* recommended by the Board, to be approved by shareholders at AGM on June, 11 2014

## 2014 Financial calendar

23 January 2014	Full year 2013 Operational results
27 February 2014	Full year 2013 IFRS financial statements
April 2014	Q1 2014 Operational results
30 April 2014	Q1 2014 IFRS financial statements
11 June 2014	Shareholders' Annual General Meeting
Q2 2014	Launch of the Balakovo mini-mill
July 2014	H1 & Q2 Operational results
30, July 2014	H1 2014 IFRS financial statements
November 2014	Capital Markets Day
October 2014	9 M & Q3 Operational results
3 November 2014	Q3 2014 IFRS financial statements

## Terms and abbreviations

CRC – cold-rolled coil

CSP – Compact strip process

Fe – Ferrum

GCal/t – Giga calories per metric tonne of product

GDP – Gross domestic product

GDR – Global depositary receipt

HDGA steel – Hot-dipped galvanneal steel

HDGI steel – Hot-dipped galvanized steel

HDGL – Hot Dip Galvanizing Line

HRC – hot-rolled coil

HVA products – High value-added products

Kt – Thousand tonnes

LTIFR – Lost time injury frequency rate

Mt – Million tonnes

Mtpa – Million tonnes per annum

MW – Megawatt

NGO – Non-governmental organisation

PLTCM – Pickle Line Tandem Cold Mill

Tonnes – metric tonnes

WTO – World Trade Organisation



## Contacts

### ОАО Severstal

#### Legal address:

30 Mira Street,  
Cherepovets, Vologda Region, 162608, Russia

#### Postal address:

2 K. Tsetkin Street  
Moscow, 127299, Russia  
Tel: +7 (495) 926 7766  
Fax: +7 (495) 926 7761  
[www.severstal.com](http://www.severstal.com)

#### Corporate Secretary

Artem Bobulich  
Tel: +7 (8202) 53 0900  
Fax: +7 (8202) 53 2159  
Email: [corporate\\_secretary@severstal.com](mailto:corporate_secretary@severstal.com)

#### Public Relations

Elena Kovaleva  
Tel/Fax: +7 (495) 926 77 66  
Email: [elena.kovaleva@severstal.com](mailto:elena.kovaleva@severstal.com)

#### Investor Relations

Vladimir Zaluzhsky  
Tel/Fax: +7 (495) 926 77 66  
Email: [vladimir.zaluzhsky@severstal.com](mailto:vladimir.zaluzhsky@severstal.com)

#### Human Resources

Natalia Bachinskaya  
Tel: +7 (495) 926 77 61  
Email: [natalia.bachinskaya@severstal.com](mailto:natalia.bachinskaya@severstal.com)

#### Corporate Social Responsibility

Natalia Poppel  
Tel/Fax: +7 (495) 926 77 66  
Email: [na.poppel@severstal.com](mailto:na.poppel@severstal.com)

#### Auditor

ZAO KPMG  
10, Presnenskaya Naberezhnaya,  
Block C, floor 31, Moscow, 123317, Russia  
Tel: +7 (495) 937 4477  
Fax: +7 (495) 937 4499

#### Registrar

ZAO Partnyor  
Address: 22, Pobedy Avenue, Cherepovets  
162606, Vologda Region, Russia  
Tel: +7 (8202) 53 6021  
Fax: +7 (8202) 55 3335  
Licence no.: 10-000-1-00287  
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