



Metalloinvest

ANNUAL
REPORT

20
14

VECTOR OF SUSTAINABLE DEVELOPMENT



DISCLAIMER

This document, any and all information and opinions contained herein (the “Annual Report”) has been prepared by HC METALLOINVEST OJSC (the “Company”) on a voluntary basis in compliance with internal annual reporting standards of the Company, and taking into account international initiatives in the field of corporate responsibility, sustainable development and non-financial reporting.

Internal standards for non-financial annual reporting adopted by the Company envisage the annual reporting cycle from January 1 to December 31 of each year. The previous non-financial annual report was published in 2014. In order to develop a dialogue with stakeholders, the Company also prepares the report on corporate social responsibility once every two years.

The Annual Report is addressed to a wide range of stakeholders and is consolidated reflecting the major economic, financial and operating results of the Companies' activities in Russia and elsewhere around the world in 2014, and contains the results of its sustainable development. Affiliates of the Company produce their own annual reports, reflecting the results of their activities.

Actual figures mentioned in the Annual Report are confirmed by the consolidated financial statements certified by an independent auditor.

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The Annual Report, including without limitation all the data, information and opinions listed herein, is presented as of the date of the Annual Report and may be modified without prior notification to the recipient. The Company does not assume any obligations to provide further access to any supplementary information or to update or correct any inaccuracy which may be found in the same.

The Annual Report contains certain projections and forward-looking statements, particularly (but not limited to) those relating to anticipated demand and consumption, global economic recovery, commodity prices, management aims and objectives, strategy, production, anticipated investment and the anticipated completion of previously announced transactions. The Company will not update the Annual Report to reflect events and circumstances occurring after the date of the Annual Report. By their nature, forward-looking statements involve risks and uncertainties because they relate to facts and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors, including future levels of industry product supply, demand and pricing, operational problems, general economic conditions, political stability and economic growth, changes in laws and governmental regulations, exchange rate fluctuations, development and use of new technology, changes in public expectations and other changes in business conditions, the actions of competitors, natural disasters and adverse weather conditions, wars and acts of terrorism or sabotage, other factors discussed elsewhere in this document, as well as many other risks affecting the Company and/or any of its affiliates, and their respective operations.

The most recent information about the Company, its management, affiliates, products can be found at www.metalloinvest.com, and upon request at the Department of Corporate Communications and Department of Investor Relations (telephone: +7 (495) 981-55 -55).

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METALLOINVEST IN 2014

“Metalloinvest’s results in 2014 demonstrated that the Company has pursued the right development strategy in the areas of production, finances, and investments, and our achievements will act as a foundation for the Company’s continued sustainable growth”.



ANDREY VARICHEV,
CEO Management Company
METALLOINVEST LLC

COMPANY PROFILE AND
OPERATIONAL HIGHLIGHTS



KEY EVENTS





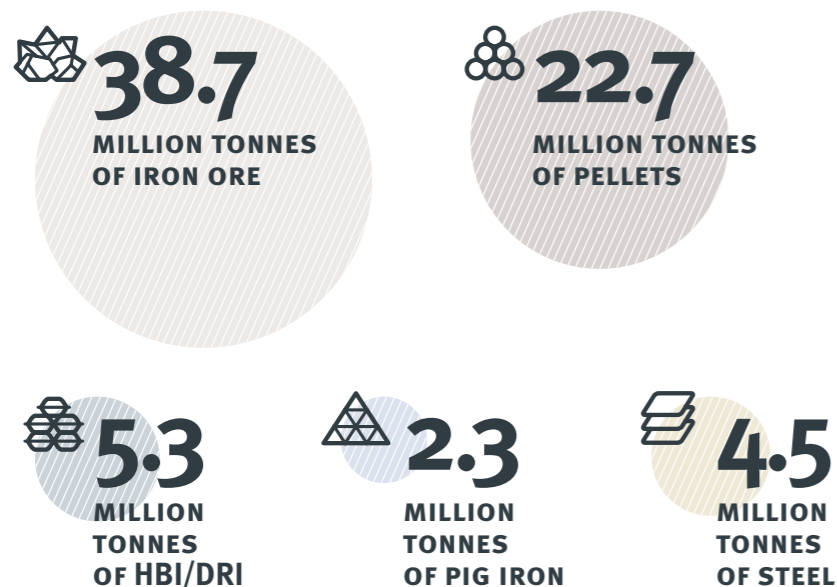
1.1 COMPANY PROFILE AND OPERATIONAL HIGHLIGHTS

METALLOINVEST IS A LEADING GLOBAL PRODUCER OF MERCHANT HOT-BRIQUETTED IRON (HBI), A LEADING PRODUCER AND SUPPLIER OF IRON ORE AND METALLISED PRODUCTS AND A REGIONAL PRODUCER OF HIGH-QUALITY STEEL.

LEADING PRODUCER OF MERCHANT HBI AND THE THIRD-LARGEST PRODUCER OF PELLETS IN THE WORLD

Metalloinvest is a global player in the production of high value-added merchant metallised products, such as pellets and HBI/DRI.

/ PRODUCED IN 2014



**MORE THAN
2,000
STEEL GRADES**

Metalloinvest is a leading producer of niche steel products in regional and Russian markets producing more than 2,000 steel grades.

EBITDA IN 2014
USD **1,961**
MILLION

EBITDA MARGIN
IN 2014
30.8%

METALLOINVEST IS THE LARGEST IRON ORE PRODUCER IN RUSSIA

14.4
BILLION
TONNES

COMPANY RESERVES

The Company owns the second-largest proven iron ore reserves in the world — about 14.4 billion tonnes, which guarantees approximately 150 years of operating lifetime at current extraction level

ABOUT
60,000
EMPLOYEES

The high level of professionalism of its employees contributes to the Company's dynamic development and makes it a successful competitor in regional and global markets

MINING ENTERPRISES:

- Lebedinsky GOK
- Mikhailovsky GOK

STEELMAKING ENTERPRISES

- OEMK
- Ural Steel
- Ural Scrap Company

AUXILIARY BUSINESSES:

Logistics and product sales, service maintenance and supply of raw materials to ore mining and steelmaking enterprises.

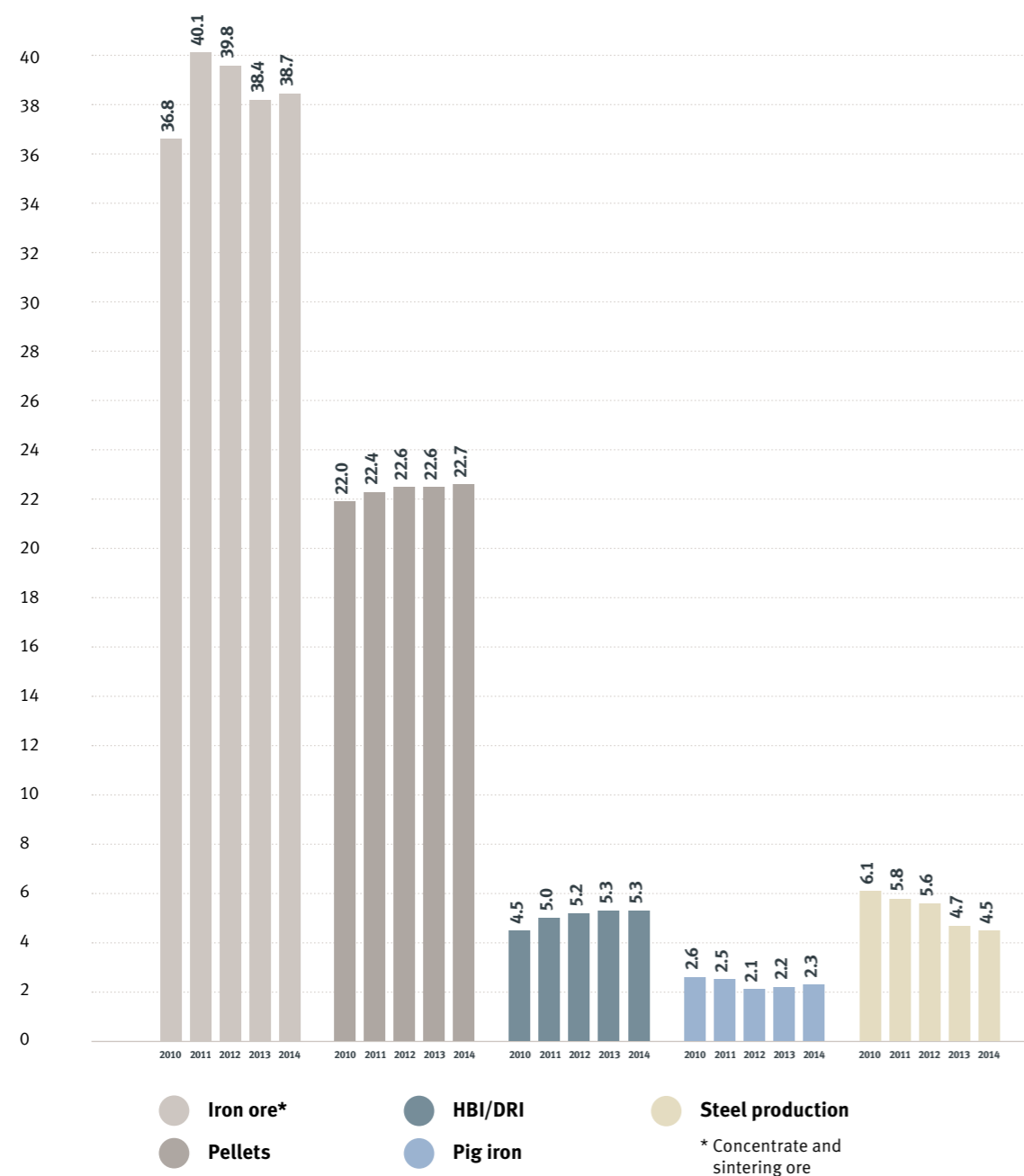


PRODUCTION RESULTS

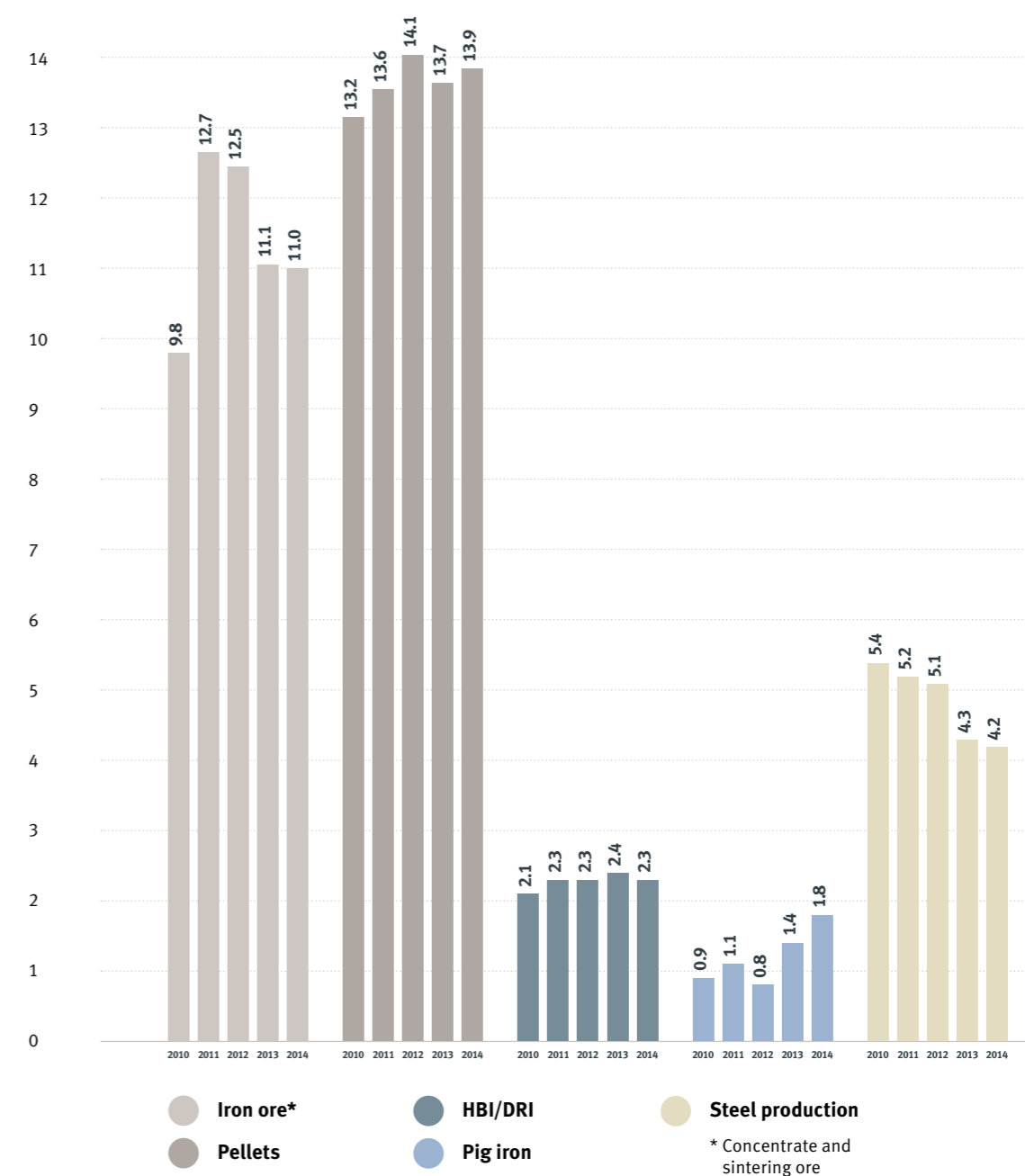
Metalloinvest is made up of the leading Russian mining companies Lebedinsky GOK and Mikhailovsky GOK, the metals companies OEMK (Oskol Electrometallurgical Plant) and Ural Steel, as well as the metals recycling business Ural Scrap Company.



PRODUCTION RESULTS / MILLION TONNES

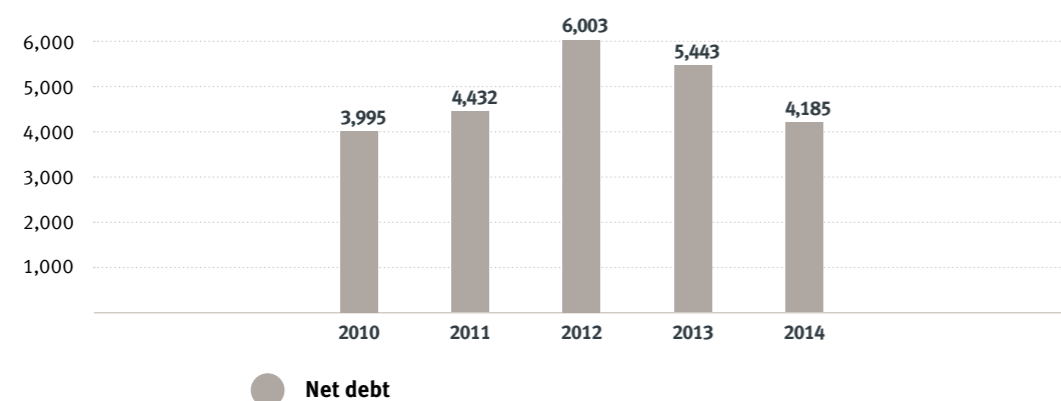
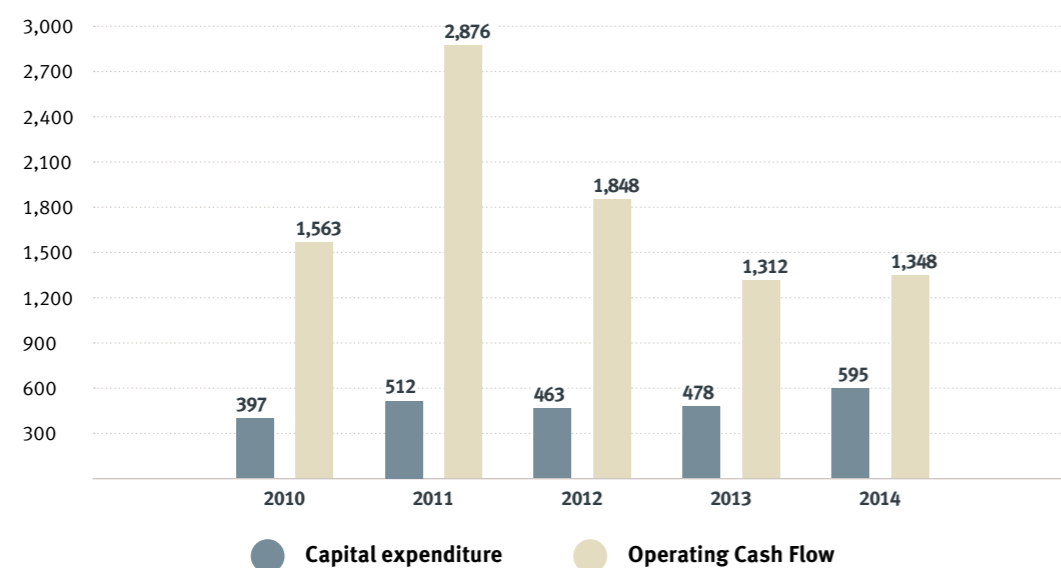
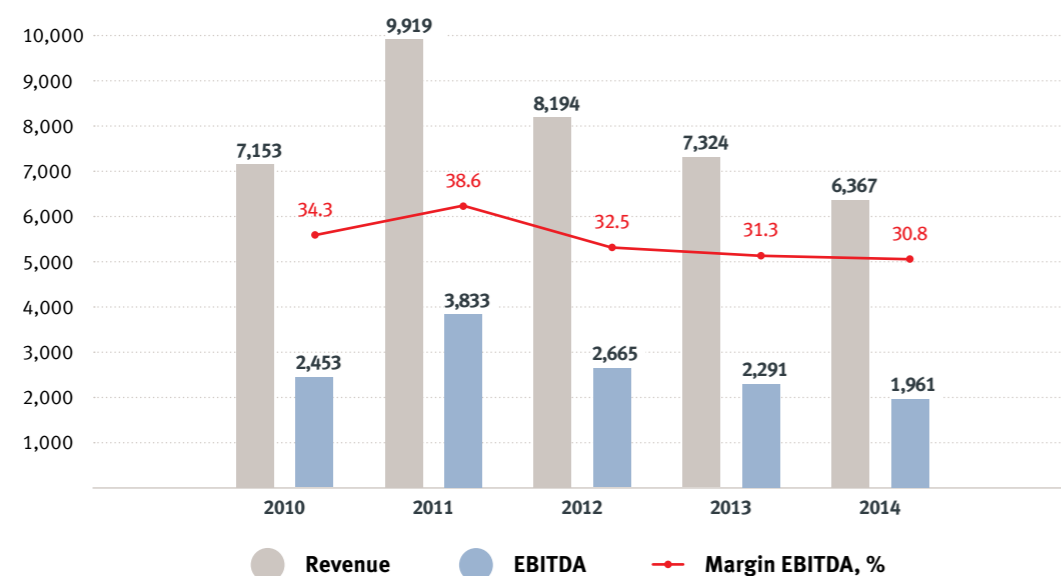


SHIPMENT / MILLION TONNES





FINANCIAL RESULTS / USD MILLION



1.2 KEY EVENTS

EFFICIENT DEVELOPMENT OF THE IRON ORE BASE

THE COMPANY IS MAKING A GRADUAL TRANSITION TO THE USE OF HIGH-LOAD, HIGH-CAPACITY EQUIPMENT.

January

As part of its programme to improve the efficiency of its mining and transport complex, Lebedinsky GOK added two new locomotive units to its stock of railway vehicles.

May

Heavy-duty Japanese Hitachi excavators, with 23 cubic metre buckets were introduced at the open-pit mines of Lebedinsky GOK and Mikhailovsky GOK. Metalloinvest's mining and processing plants did not previously use excavators of similar capacity, as they used vehicles with a load capacity of 10–12 cubic metres or less.

September

A new hydraulic hammer fitted to a Hitachi excavator, designed to break large pieces of ore, was introduced at the open-pit mine of Mikhailovsky GOK.

October

Lebedinsky GOK began the trial operation of a bespoke EKG-20 KM excavator manufactured by P. G. Korobkov IZ-KARTEX Ltd., with a 20 cubic metre bucket. This test will help to evaluate the viability of using this type of mining equipment in the specific conditions of the enterprise's open-pit mine.



CONSOLIDATING POSITIONS IN THE HIGH VALUE-ADDED PRODUCTS SEGMENT AND ADOPTING NEW TECHNOLOGIES

THE COMPANY IS MODERNISING ITS PRODUCTION FACILITIES, IMPLEMENTING A LONG-TERM INVESTMENT PROGRAMME.

August

OEMK started the industrial operation of a cooling tower at the third-stage water recycling cycle in OEMK's pelletising and metallising production facilities. The new four-section cooling tower manufactured by FANS (Czech Republic) has a capacity of 4,800 cubic metres of water per hour, and will allow cooling of water to be recycled for the major process equipment of Shaft Furnaces #1 and #2, creating conditions for its safe and stable operation.

October

Metalloinvest entered into an active phase of construction of the third hot-briquetted iron plant (HBI-3 Plant) at Lebedinsky GOK. This HBI unit will become the world's largest. Its production capacity will be 1.8 million tonnes per year.

The Primetals Technologies¹ and Midrex Consortium is the main supplier of the equipment. The Urban Institute of Steel Plant Design (Gipromez), part of Metalloinvest, also participated in the project. Total investment in the project will amount to approximately USD 650 million².

Ural Steel began a trial operation of Coke Oven Battery #6 (CB-6). The commissioning of CB-6 will enable the enterprise to produce approximately 690,000 tonnes of high-quality coke per year, meeting all needs of the blast furnace shop that is increasing its pig iron production capacity. The enterprise will no longer need to buy coke from outside suppliers. The battery unit is fitted with state-of-the-art equipment, and its environment-friendly design minimises the unit's impact on the environment.

November

OEMK started the trial operation of an oxygen facility equipped with a cryogenic air-separation unit (ASU #3). The works were done by LindeEngineering Dresden GmbH (Germany) and Gipromez. The new unit will produce 20,000 cubic metres of oxygen, 20,000 cubic metres of nitrogen and 1 tonne of crystallised argon per hour. With the ASU #3 fully operational, the enterprise will increase its total production of oxygen by 75% and of nitrogen by 24%, and it will also be able to commence its own production of argon to fulfill both current and prospective OEMK needs for these products of air separation.

December

An M1 trunk conveyor was overhauled at the crushing and sorting plant (DOK) of Mikhailovsky GOK. As a result of the overhaul the plant increased its transportation capacity from 2,900 tonnes to 5,000 tonnes per hour.



FOR MORE
DETAILS ON
HBI-3 PLANT
PROJECT,
SEE P. 42



FOR MORE
DETAILS ON
CB-6 PROJECT,
SEE P. 45



FOR MORE
DETAILS ON
ASU #3 PROJECT,
SEE P. 44

CUSTOMER BASE DEVELOPMENT

THE COMPANY AIMS TO CONCLUDE LONG-TERM CONTRACTS WITH ITS CUSTOMERS TO ENSURE A STABLE LEVEL OF SALES.

April

Metalloinvest secured a one-year contract to supply iron ore concentrate to KOKS Group. Under the agreement, the total amount of the product to be supplied will exceed one million tonnes.

June

Metalloinvest and Kosaya Gora Iron Works signed a three-year pellet supply contract. Under the agreement, the total amount of pellets to be supplied to Kosaya Gora will be 1.9 million tonnes.

August

Metalloinvest and Italian steel factory Ferriere Nord S.P.A. (part of Pittini Group) signed a long-term contract for the supply of HBI.

October

Metalloinvest and Novorossiysk Commercial Sea Port (NCSP) signed agreement letter of intent, as part of which NCSP plans to implement a project to construct a new bulk freight port complex at the port of Novorossiysk, and Metalloinvest will use it to export iron ore and pig iron to overseas buyers. The facility is scheduled to be operational in 2018.

December

Metalloinvest and Novolipetsk Steel (NLMK) extended their long-term contract for supply of pellets to December 31, 2015. Under the agreement, the amount to be supplied will total 6.6 million tonnes. Previously in 2011, Metalloinvest and NLMK signed a four-year contract for the supply of approximately 21.6 million tonnes of pellets.

¹ Primetals Technologies Limited was incorporated in 2015 as a joint venture of Siemens VAI Metals Technologies and Mitsubishi Hitachi Metals Machinery.

² The cost of the project is reported USD and is subject to change due to RUB/USD exchange fluctuations in 2014–2015 as part of the project costs is nominated in RUB (e.g., Russian-manufactured equipment).



STABLE FINANCIAL POSITION AND GROWTH OF INVESTMENT ATTRACTIVENESS

POSITIVE CHANGES IN THE COMPANY'S CREDIT RATINGS REFLECT ITS EFFORTS AIMED AT ENHANCING THE EFFICIENCY OF ITS OPERATIONS.

February



FOR MORE
DETAILS ON
CREDIT RATINGS,
SEE P. 61

Standard & Poor's upgraded Metalloinvest's long-term corporate rating from BB- to BB with a Stable outlook. According to Standard & Poor's report, Metalloinvest expressed readiness to conduct a more predictable financial policy and improved its debt repayment schedule. Standard & Poor's upgraded the rating of Metalloinvest's public debt instruments (Eurobonds) from BB- to BB.

March



FOR MORE
DETAILS
ON CREDIT
PORTFOLIO,
SEE P. 60

Metalloinvest closed a two-tranche pre-export credit facility with a syndicate of international banks including Deutsche Bank, ING, Société Générale, BNP Paribas, Credit Agricole CIB, UniCredit Bank, BTMU and Credit Suisse. The new facility for the amount of USD 1.15 billion shall be repaid between 2016 and 2019. It was drawn down at interest rates considerably lower than the interest rate on the preceding syndicated pre-export facility maturing in 2015–2016, which will be refinanced with the funds received. The margin over the one-month LIBOR rate on the new facility is within the range of 125–165 bps.

May



FOR MORE
DETAILS ON
CREDIT RATINGS,
SEE P. 61

Fitch upgraded Metalloinvest's credit rating from BB- to BB with a Stable outlook. The upgrade reflects the Company's strong operational profile. Fitch also raised the Company's senior unsecured foreign currency rating from BB- to BB with a Stable outlook (Eurobonds' rating).

July

Two issues of the Company's Eurobonds were included by Sberbank in its Lombard list. The list includes Metalloinvest's Eurobonds for a total amount of USD 750 million, maturing in 2016 with a coupon rate of 6.5% per year, and its Eurobonds for a total amount of USD 1 billion, maturing in 2020 with a coupon rate of 5.625% per year.

COMPLIANCE WITH INTERNATIONAL STANDARDS OF CORPORATE GOVERNANCE

THE COMPANY GRADUALLY ADOPTS INTERNATIONAL BEST PRACTICES OF CORPORATE GOVERNANCE AND HIGHLY VALUES THEM AS A POWERFUL TOOL FOR ENSURING SUSTAINABLE DEVELOPMENT OF THE BUSINESS AND INCREASING THE COMPANY'S VALUE.

March

A new executive body—the Management Board—was formed at Metalloinvest. Andrey Varichev, CEO of Management Company Metalloinvest, was appointed Chairman of the Management Board. The formation of the new executive body is aimed at further enhancing the Company's corporate governance and reinforcing its focus on operational activity. The inclusion of the Managing Directors from Metalloinvest's divisions on the Management Board will enable the Company to find more efficient ways for future development.



FOR MORE
DETAILS ON
MANAGEMENT
BOARD,
SEE P. 87–89

April

The Company's new Board of Directors was elected. Sergey Soldatenkov and Dmitry Tarasov joined the Board of Directors as independent non-executive director and executive director respectively. The Remuneration Committee was established with Sergey Soldatenkov as its Chairman. These changes were undertaken to improve Metalloinvest's operational efficiency and to develop and motivate the Company's personnel.



FOR MORE
DETAILS ON
THE BOARD OF
DIRECTORS,
SEE P. 77–86

June

On June 27, the Holding Company Metalloinvest held its annual general meeting of shareholders that resolved to pay dividends from net profit for 2013 and retained profits of the previous years. The amount of dividends to be paid to the companies of USM Holdings (which controls 100% of HC METALLOINVEST OJSC shares) is USD 502 million. The funds were used to repay the loans that the Company previously made to its shareholders.

With a view to improve the Company's corporate governance and organisational structure, on July 1, 2014, Management Company METALLOINVEST LLC became the sole executive body of Holding Company METALLOINVEST OJSC.

December

In compliance with the requirements of Federal Law #376-FZ dated November 24, 2014 "On Amendments to Parts One and Two of the Tax Code of the Russian Federation (Relating to Taxation of Profit of Controlled Foreign Companies and Revenues of Foreign Organisations)", which came into force on January 1, 2015, 24% of the shares of Holding Company Metalloinvest JSC, which were previously owned by METALLOINVEST LIMITED, were transferred to the jurisdiction of the Russian Federation and were put on the balance sheet of Lebedinsky GOK JSC (15%), Holding Company Metalloinvest JSC (6%) and OEMK JSC (3%). The transactions required by the transfer were effected within one group of legal entities.



PERSONNEL DEVELOPMENT, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

THE COMPANY CREDITS ITS LONG-TERM FINANCIAL SUCCESS TO ITS COMMITMENT TO PRINCIPLES OF SUSTAINABLE DEVELOPMENT, INCLUDING PROTECTION OF THE ENVIRONMENT, OCCUPATIONAL SAFETY, HEALTHCARE FOR ITS EMPLOYEES AND RESPONSIBILITY TOWARDS COMMUNITIES.

January

Metalloinvest introduced a KPI system that sets out those of the Company's operational targets that are shared by all of its managers and those that will be pursued by individual functional units. The KPI system includes more than 100 key managers of the Management Company as well as the key functional managers at Metalloinvest's enterprises (Lebedinsky GOK, Mikhailovsky GOK, OEMK, Ural Steel and Ural Scrap Company).



FOR MORE
DETAILS
ON SOCIAL
PARTNERSHIP
PROGRAMME,
SEE P. 100–105

February

Metalloinvest, the Kursk Region administration and the Zheleznogorsk town administration signed a social partnership programme for 2014. The document formalised certain mutual obligations regarding priority investment projects to support the social development of the region and of the towns in which one of the Company's key enterprises, Mikhailovsky GOK, operates.



FOR MORE
DETAILS
ON SOCIAL
PARTNERSHIP
PROGRAMME,
SEE P. 100–105

March

Metalloinvest and the Government of the Belgorod Region signed a social partnership programme for 2014. The document formalised certain mutual obligations related to priority investment projects to support the social development of the region and the towns where the Company is present, Stary Oskol and Gubkin.

Metalloinvest won the Russian Business Leaders: Dynamism and Responsibility 2013 competition organised by the Russian Union of Industrialists and Entrepreneurs (RUIE). The Company was recognised in the Socially Responsible Business category for its contribution to regional development.

November

The Company implemented a project, based on international best practices, to develop and introduce a remuneration grade system. The project aims to make the Company's compensation structure more transparent and to form an efficient jobs structure at the Company. The Management Company and Mikhailovsky GOK were selected as pilot platforms for the project.

Metalloinvest won three awards in the seventh annual international contest Leaders of Metalloinvest won three awards in the seventh annual international contest Leaders of Corporate Charity. The Company received diplomas as the most generous charity giver in the industry, in the Best Programme that Reflects the Corporate Charity Policy and in the Principles of Social Responsibility category. The Company was also awarded second place in the overall ranking.



FOR MORE
DETAILS ON THE
COMPANY'S
SOCIAL
PROJECTS,
SEE P. 103–105

December

Metalloinvest won the PEOPLE INVESTOR competition of corporate projects in the Developing Local Communities category for the School of Communal Good project and in the Employees' Health category for the Women's Health project. The award presentation ceremony took place at the VII Business Forum of companies investing in people.

CERTIFICATION AUDITS PASSED IN 2014

LGOK

Compliance of quality management system with the requirements of ISO 9001:2008

Compliance of management system of occupational and industrial safety with the requirements of OHSAS 18001:2007 international standard

Compliance of environmental management system with the requirements of GOST R ISO 14001 — 2007 State Standard and with MS ISO 14001:2004

MGOK

Compliance of quality management system and occupational health and safety management with the requirements of ISO 9001:2008 and OHSAS 18001:2007 international standards

Compliance of environmental management system with the requirements of ISO 14001:2004 international standard

OEMK

Compliance of occupational health and industrial safety management system with the requirements of OHSAS 18001:2007 international standard

Ural Steel

Compliance of quality management system with the requirements of ISO/TS 16949

Compliance of environmental management system with the requirements of ISO 14001:2004 international standard

Compliance of occupational health and safety management system with the requirements of OHSAS 18001:2007 international standard

Compliance of quality management system with the requirements of ISO 9001:2008 international standard STO Gazprom 9001-2012 industry standard

CERTIFICATION AUDIT



ISO 14001



OHSAS 18001



ISO 9001



ISO 14001



ISO 9001:2008



OHSAS 18001



ISO 9001



ISO 14001



CONSEQUENT EVENTS

January

Works to modernise the second gas purification unit in the electric arc furnace shop started at OEMK. Modernisation of the second unit is the final stage of a large-scale investment project to build a new steel furnace exhaust gas purification system at OEMK. The implementation of the project will make it possible to increase steel production, reduce the enterprise's impact on the environment and improve the working conditions significantly for OEMK personnel.

Metalloinvest received a certificate confirming its participation in the international Climate Action programme. Climate Action, a data collection programme, is the basis for a global initiative to reduce CO₂ emissions in the steel industry. As a participant in the programme, Metalloinvest gathers and computes data on emissions of greenhouse gasses generated in the production processes in accordance with the methodology of the World Steel Association, a global steel producers' organisation. Comparing data collected at different enterprises will help determine the most efficient methods to reduce CO₂ emissions.

February

Metalloinvest began to phase in the key equipment of Pellet Plant #3 (PP-3) at Mikhailovsky GOK. The construction of the PP-3 complex is a unique project in terms of scale and significance. Its completion will increase Mikhailovsky GOK's pellet production capacity by 5 million tonnes and will create approximately 600 new jobs in the region.

Standard & Poor's affirmed the Company's long-term foreign and national currency ratings at BB. The outlook was revised from Stable to Negative. Confirmation of the ratings at BB means that, according to Standard & Poor's, the weaker ruble and the Company's efficient product line are good for Metalloinvest's financial performance. The outlook was revised from Stable to Negative because of increasing uncertainty caused by dropping iron ore prices, the growing geopolitical risk of operating in the Russian Federation and the fact that Russian corporations currently have a limited access to capital markets.

Metalloinvest signed an iron ore supply contract with ArcelorMittal. Total deliveries will exceed 2 million tonnes of iron ore products that will be used at ArcelorMittal's European enterprises.

Metalloinvest signed a social partnership programme for 2015 with the Kursk Region administration and the Zheleznogorsk town administration. The document formalises certain mutual obligations regarding priority investment projects to support the social development of the region and the town.

Metalloinvest was among the organisers of the first Dobro educational conference for charitable funds and not-for-profit organisations. The conference was held to facilitate dialogue between representatives of business community, government and leaders of charitable and not-for-profit organisations. At the conference, the Company presented its successful models of cooperation between business, the state and communities in the course of implementation of social projects in Russian regions.

Metalloinvest's corporate website won the 3rd annual Digital Communications AWARDS in the "Digital Platform: B2B Corporate Website category. The award was sponsored by the Association of Communications and Corporate Media Directors of the Russian Federation and the Media Business Publishing House with support from the magazine Media News.

March

In accordance with its corporate policy aimed at increasing the transparency of financial reporting, Metalloinvest released its audited IFRS financial results for 2014, having significantly cut the time for the preparation and disclosure of the Company's financial information.

Metalloinvest and the administration of the Belgorod Region signed a social partnership programme for 2015. The document formalises certain mutual obligations related to priority investment projects to support social development of the region and the towns where the Company is present, Stary Oskol and Gubkin.

Ural Steel, one of Metalloinvest's key enterprises, marked its 60th anniversary in March 2015. The enterprise was commissioned in 1955 (it was named Orsko-Halilovsky Steelmaking Plant at the time). Today, Ural Steel is a full-cycle enterprise, including agglomeration, coke production and a blast-furnace, as well as steel making and rolling-mill processes.

Vladimir Putin, President of the Russian Federation, signed a presidential decree awarding Valery Kazikayev, a member of the Company's Board of Directors, with a letter of acknowledgement. Mr. Kazikayev was merited the prize for "his working achievements, his many years of conscientious work and his active contribution to society".

Metalloinvest won Russian Business Leaders: Dynamism and Responsibility 2014 Russian contest in the Environmental Responsibility category. The awards were presented during the Russian Business Week in Moscow.

A video of the Company's annual report for 2013 won the Best Corporate Video — 2015 competition that took place during the Moscow International Festival of Corporate Video 2015, in the "IR-Video: Investors and Shareholders" and "Best Data Infographics" categories. <http://www.metalloinvest.com/en/media/media-library/video-library/investors/annual-reports/>

April

Moody's affirmed the Company's corporate rating at Ba2 with a Stable outlook. It also affirmed at Ba2 the ratings of the debt securities, issued by Metalloinvest Finance Limited, with a Stable outlook. Confirmation of Ba2 ratings reflects Moody's opinion that the competitive position of Metalloinvest would remain stable in terms of production cost against devaluation of the ruble observed in 2014. These improvements, along with an adequate liquidity level and a continuous reduction of the debt load in 2014 and in the beginning of 2015, allowed the Company to retain its Ba2 rating and will balance to a certain extent the adverse effect of weakening iron ore prices.

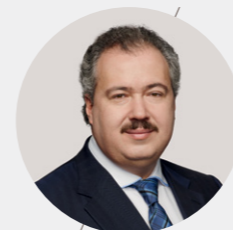
Metalloinvest won the Vision Awards Annual Report Competition in the USA. The Company's interactive report for 2013 won the first prize in the Annual Report Competition — Online Version category. The competition was organised by the League of American Communications Professionals (LACP).

Nikolay Krylov was appointed a new member of the Board of Directors of the Company at the annual general meeting of shareholders (participants) of Metalloinvest.



STRATEGY REPORT AND BUSINESS MODEL

“Metalloinvest continues to develop its strategic projects aimed at supporting and growing its production capabilities, minimising costs, improving market positions, protecting the Company’s long-term financial stability and increasing shareholder value”.



IVAN STRESHINSKY,
Chairman of the Board
of Directors

MESSAGE FROM THE CHAIRMAN
OF THE BOARD
MESSAGE FROM THE CEO



BUSINESS MODEL



STRUCTURE OF THE
COMPANY’S ASSETS



LONG-TERM STRATEGY



INVESTMENT PROGRAMME: 2014





2.1 MESSAGE FROM THE CHAIRMAN OF THE BOARD



DEAR SHAREHOLDERS, PARTNERS AND COLLEAGUES!

Metalloinvest's efforts in 2014 were aimed at developing its production assets and achieving robust financial results. In spite of challenging economic conditions, such as the ruble devaluation and price falls in all of our markets, the company reached its targets and maintained its strong financial footing.

During the reporting period, Metalloinvest strengthened its leading positions on the international and Russian markets for metallised and iron ore products, and increased sales of high-quality rolled steel. This was the result of effective management at all levels, the well coordinated work of our highly-qualified production staff, and the consistent execution of our strategic investment programme.

The ratings agencies attested to Metalloinvest's financial stability when Standard & Poor's and Fitch upgraded the company's credit rating to BB in February 2014 and May 2014, respectively.

The Board of Directors continued to collaborate closely with the Company's management, having formed its own Compensation and Benefits Committee, which was created to ensure that our employees remain motivated in their work. The Board of Directors' main priorities in 2014 were as follows:

- Revision of the Company's long-term strategy;
- Accelerated integration of corporate governance and production best practices at the Company's enterprises;
- Implementation of strategic investment projects;
- Effective cooperation of the Company with investors and other key stakeholders in the regions where Metalloinvest operates.

In the future, we will continue to develop our strategic projects aimed at supporting and growing our production capabilities, minimising costs, improving our market positions, protecting the Company's long-term financial stability and increasing shareholder value.

I would like to thank all of Metalloinvest's employees for their invaluable efforts in achieving such strong results in 2014.

IVAN STRESHINSKY,
Chairman of the Board
of Directors Management
Company METALLOINVEST LLC



2.2 MESSAGE FROM THE CEO



DEAR COLLEAGUES AND PARTNERS!

2014 turned out to be a challenging year for Metalloinvest. We operated in a deteriorating global market environment and changing macroeconomic circumstances in Russia in the second half of last year.

In spite of significant external factors, the Company continued to implement its strategy and achieved solid financial results: operating income in 2014 increased by 7.3% compared to 2013.

Metalloinvest's 2014 financial results reflect wider market trends. The Company's revenues amounted to USD 6.4 billion, down 13.1% compared to 2013. EBITDA stood at USD 2 billion, a drop of 14.4% year-on-year. These declines are explained by the fall in global iron ore prices. At the same time, the EBITDA margin remained practically unchanged at 30.8%, compared to 31.3% a year earlier. The Company's Steel Segment made a significant contribution to overall EBITDA, having increased its own EBITDA by nineteen-fold to USD 421 million. The Company made a net profit of USD 66 million. The 93.9% fall in net income, a decline of USD 1.7 billion, was largely the result of FX non-cash items related to the dollar-denominated part of the Company's debt.

A new executive body was formed in the past year — the Management Board. Its creation played a significant role in enabling the Company to increase its operational efficiency.

During the year, we increased production of iron ore, pellets and hot metal by amounts ranging from 0.4% to 4.8%. The 1.1% drop in HBI/DRI production and the 3.7% decline in steel production came as a result of planned maintenance and closures of inefficient facilities, respectively.

Metalloinvest devotes considerable attention to the efficiency of its production capacities. As such, the Company continued to conclude long-term contracts and develop mutually-beneficial relations with partners. In 2014, the Company signed a range of agreements with Russian companies — NLMK, KOKS Group and Kosaya Gora Iron Works, as well as the Italian steel plant Ferriere Nord S.P.A.

In 2014, Metalloinvest continued to implement its large-scale investment programme, aimed at increasing its production capacities for high added-value products.

One of the Company's most important investment projects is the construction of a third hot-briquetted iron plant at Lebedinsky GOK. The new facility will have an annual capacity of 1.8 million tonnes. The project will allow Metalloinvest to meet growing demand for high-quality metallised resources and maintain its global leadership in merchant HBI production. In 2014, we completed the building and installation of a range of infrastructure facilities at HBI-3. Construction is continuing in 2015.

We have completed the construction of Pellet Plant #3 at Mikhailovsky GOK. In February 2015, the Company began the phased commissioning of the facility's main equipment. The plant will enable the Company to increase pellet production capacity at Mikhailovsky GOK by 5 million tonnes to 15 million tonnes per year.

In October 2014, pilot production began at Ural Steel's Coke Oven Battery #6. The implementation of the project will facilitate the production of 690,000 tonnes of high-quality coke annually, meaning that Metalloinvest will no longer need to purchase coke from external sources and thus the Company will reduce its overall production costs.

In November 2014, Metalloinvest commenced pilot production at its oxygen station with a cryogenic air separation unit at OEMK, another significant part of the Company's investment programme. The new facility meets the plant's needs for air separation products in full.

We expect to see increased operational efficiency in the Mining Segment following the modernisation of our mining and transport operations and investments to acquire more productive open-pit mining technology.

Metalloinvest carries out its business in a responsible manner and actively contributes to the sustainable development of the regions where it operates. Over the course of many years, the Company has worked in collaboration with the governments of the Belgorod, Kursk and Orenburg regions, as well as the administrations of Stary Oskol, Gubkin, Zheleznogorsk and Novotroitsk to develop and implement programmes as part of various socio-economic partnerships. The investments, made alongside mutual commitments, are aimed at implementing priority social development programmes. Improving quality of life in the regions where Metalloinvest operates is intended to help the Company maintain a highly-qualified workforce for the long term.

Metalloinvest's results in 2014 demonstrated that the Company has pursued the right development strategy in the areas of production, finances, and investments, and our achievements will act as a foundation for the Company's continued sustainable growth.

ANDREY VARICHEV,
CEO Management Company
METALLOINVEST LLC



2.3 BUSINESS MODEL

METALLOINVEST IS AN EFFICIENT ORE MINING COMPANY WITH FULL-CYCLE PRODUCTION — FROM IRON ORE EXTRACTION TO PRODUCTION OF HIGH-QUALITY STEEL.

Mining Segment

LEBEDINSKY GOK JSC, MIKHAILOVSKY GOK JSC

Lebedinsky GOK and Mikhailovsky GOK are two ore mining and processing enterprises with the highest production volume in Russia (according to Rudprom). Lebedinsky GOK and Mikhailovsky GOK develop deposits located in one of the largest iron-producing basins in the world — Kursk Magnetic Anomaly. The deposits largely consists of magnetite ores with an average iron content of 34–39 %.

Steel Segment

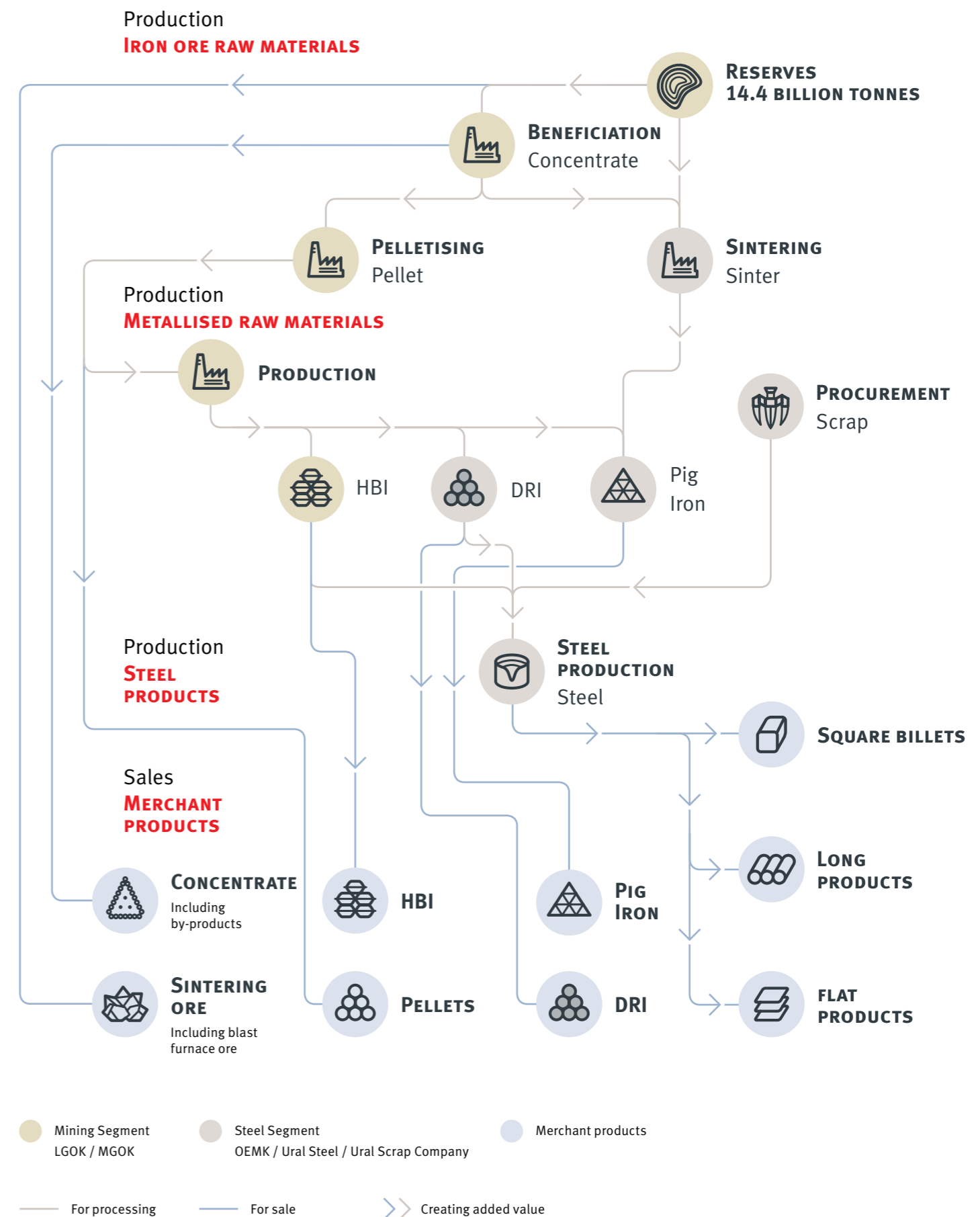
OSKOL ELECTROMETALLURGICAL PLANT JSC, URAL STEEL JSC, URAL SCRAP COMPANY LLC

Metalloinvest's Steel Segment comprises of OEMK and Ural Steel, leading steel makers on the Russian niche markets, and Ural Scrap Company, which collects and recycles scrap metal.

Auxiliary businesses

METALLOINVEST TRADING AG (100%), METALLOINVEST LOGISTICS DWC LLC (100%), GIPROMEZ LLC (100%), METALLOINVEST LEASING CJSC (100%), BAIKAL MINING COMPANY LLC (100%), NAUTILUS MINERALS INC. (20.9%), HAMRIYAH STEEL FZC (UAE) (80%), NORILSK NICKEL MMC (3.2%)

Metalloinvest has auxiliary assets that provide logistics and product sales, servicing and the supply of raw materials to ore mining and steel enterprises, as well as the assets, which diversify the Company's activity.





2.4 STRUCTURE OF THE COMPANY'S ASSETS

MINING SEGMENT: LEBEDINSKY GOK

Lebedinsky GOK is the largest iron ore company in Russia, which mines and enriches iron ore and produces high-quality iron ore products. Lebedinsky GOK is the only producer of HBI in Russia. The enterprise operates open-pit mines with proven reserves of 3.9 billion tonnes of iron ore.

The main types of products at Lebedinsky GOK are:



IRON ORE CONCENTRATE



FLUXED PELLETS



NON-FLUXED PELLETS



HBI

3.9
BILLION
TONNES

PROVEN AND PROB-
ABLE RESERVES IN
ACCORDANCE WITH
THE JORC CODE
(IMC MONTAN)



Location map of
Belgorod Region



PRODUCTION FIGURES FOR 2014



20.5

MILLION TONNES
IRON ORE
CONCENTRATE



9.0

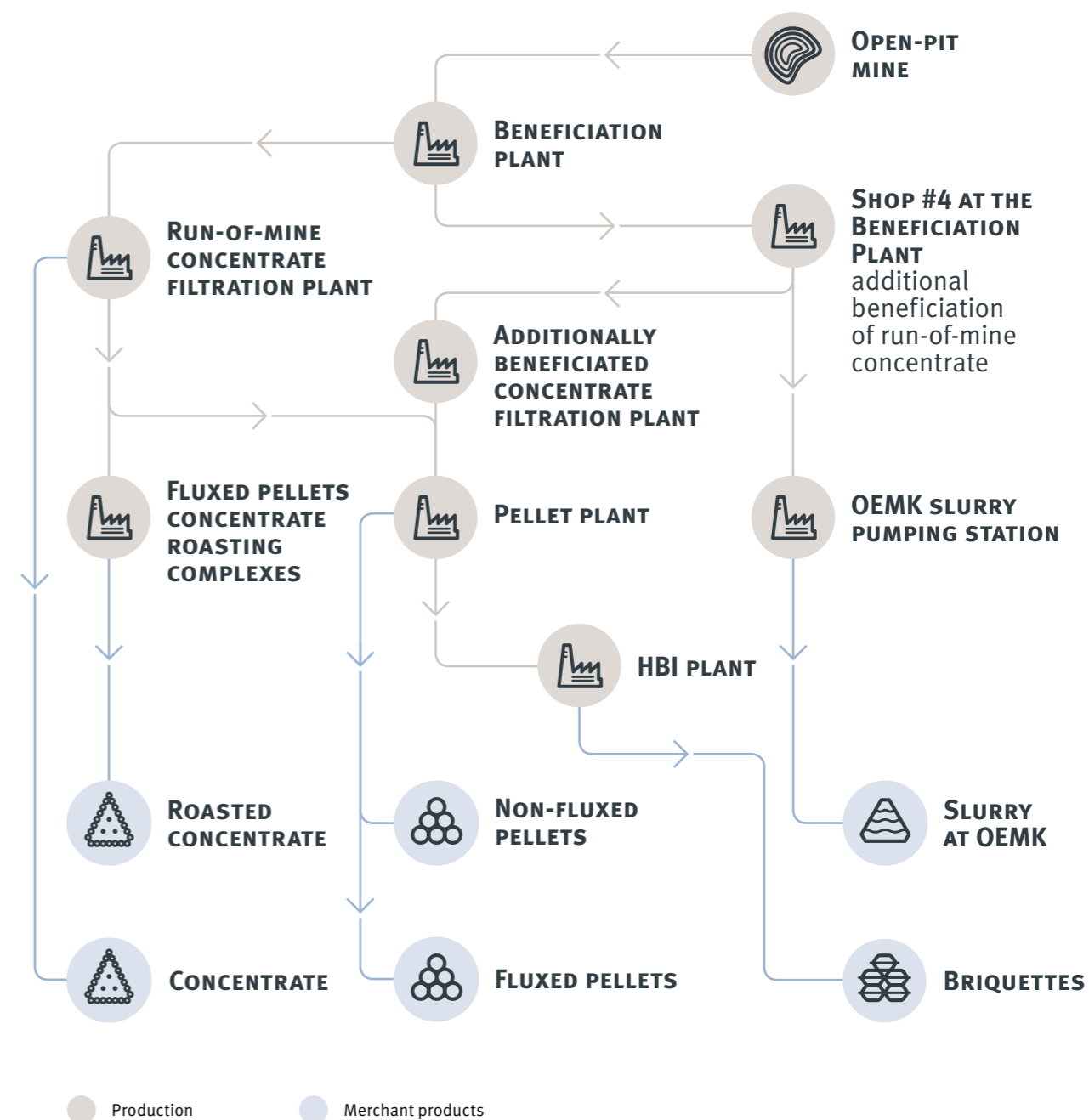
MILLION TONNES
OF PELLETS



2.4

MILLION TONNES
HBI

MAIN TECHNOLOGICAL PROCESSES OF LEBEDINSKY GOK





MINING SEGMENT: MIKHAILOVSKY GOK

Mikhailovsky GOK is one of the largest iron ore production and beneficiation plants in Russia and CIS. Mikhailovsky GOK performs open-pit mining of iron ore deposits and has proven reserves of 10.5 billion tonnes.

The main types of products at Mikhailovsky GOK are:



SINTERING ORE



FLUXED PELLETS



BLAST FURNACE ORE



IRON ORE CONCENTRATE



NON-FLUXED PELLETS



BLAST FURNACE CONCENTRATE



10.5
BILLION
TONNES

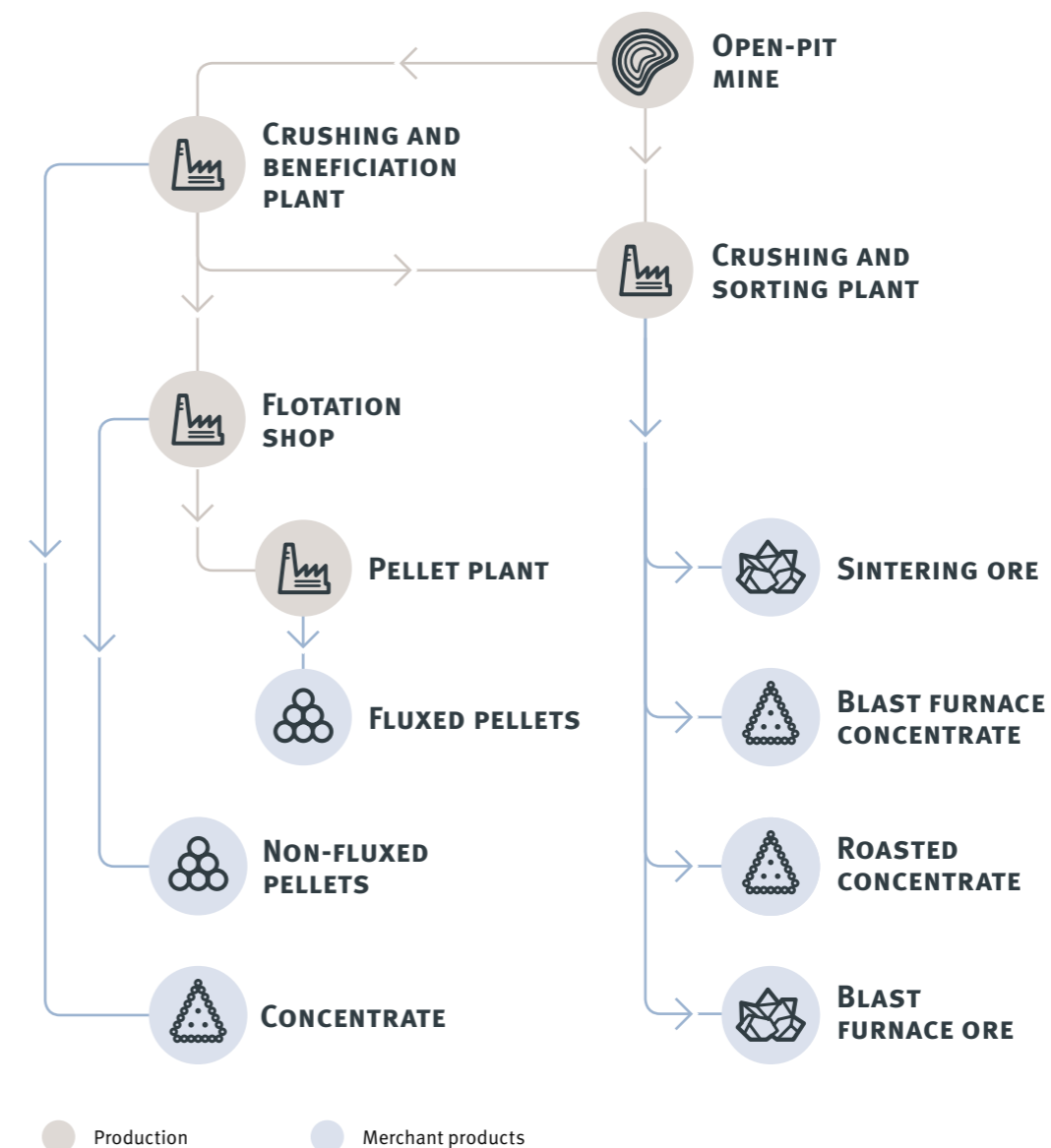
PROVEN AND PROB-
ABLE RESERVES IN
ACCORDANCE WITH
THE JORC CODE
(IMC MONTAN)



Location map of
Kursk Region



/ MAIN TECHNOLOGICAL PROCESSES OF MIKHAILOVSKY GOK



/ PRODUCTION FIGURES FOR 2014



16.7

MILLION TONNES
IRON ORE
CONCENTRATE



9.9

MILLION TONNES
OF PELLETS



STEEL SEGMENT: OEMK

OEMK is the only full-cycle steelmaking plant in Russia, which uses direct reduction technology and electric arc furnaces, enabling it to produce steel that is almost completely free from contamination and residual elements.

The main types of products at OEMK are:

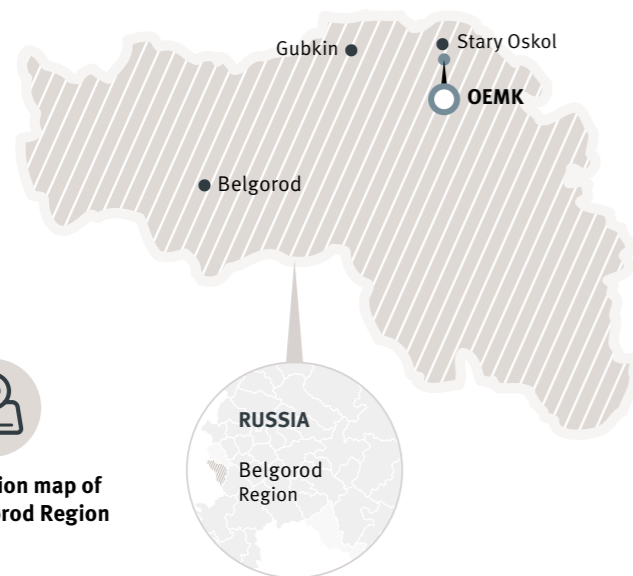


STEEL PRODUCTS

- square billets;
- pipe billets;
- cast billets;
- high-quality long products.



DRI



Location map of
Belgorod Region

/ PRODUCTION FIGURES FOR 2014



3.7

MILLION TONNES
OF PELLETS



2.9

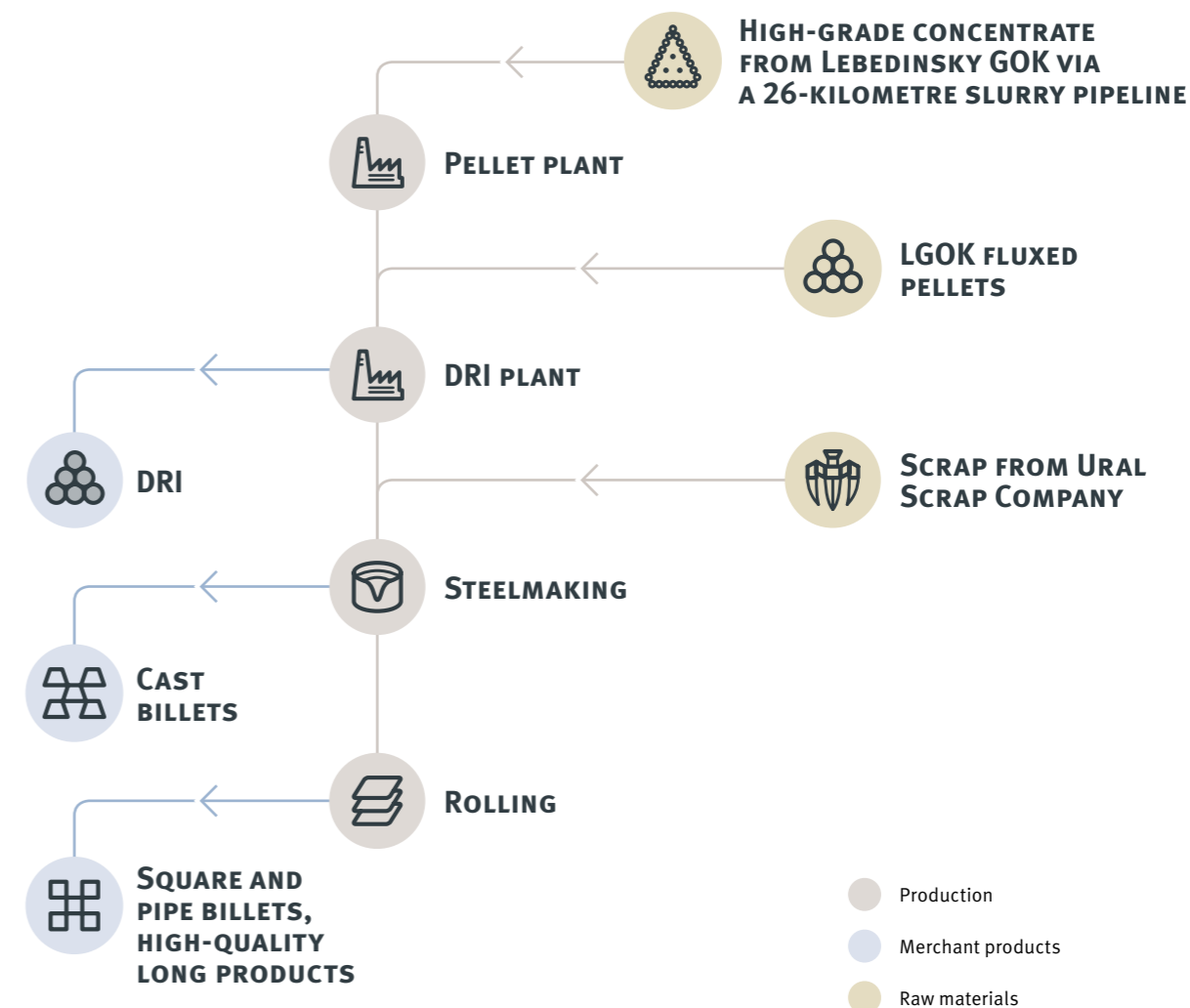
MILLION TONNES
DRI



3.4

MILLION TONNES
STEEL

/ MAIN TECHNOLOGICAL PROCESSES OF OEMK



STEEL SEGMENT: URAL STEEL

Ural Steel is a full-cycle plant, which includes agglomeration and blast furnace processes, steelmaking and rolling.

The main types of products at Ural Steel are:

 **COKE**

 **PIG IRON**

 **CAST CIRCULAR BILLET**

 **FLAT PRODUCTS**

- bridge steel;
- strips;
- ship steel;
- heavy plate.

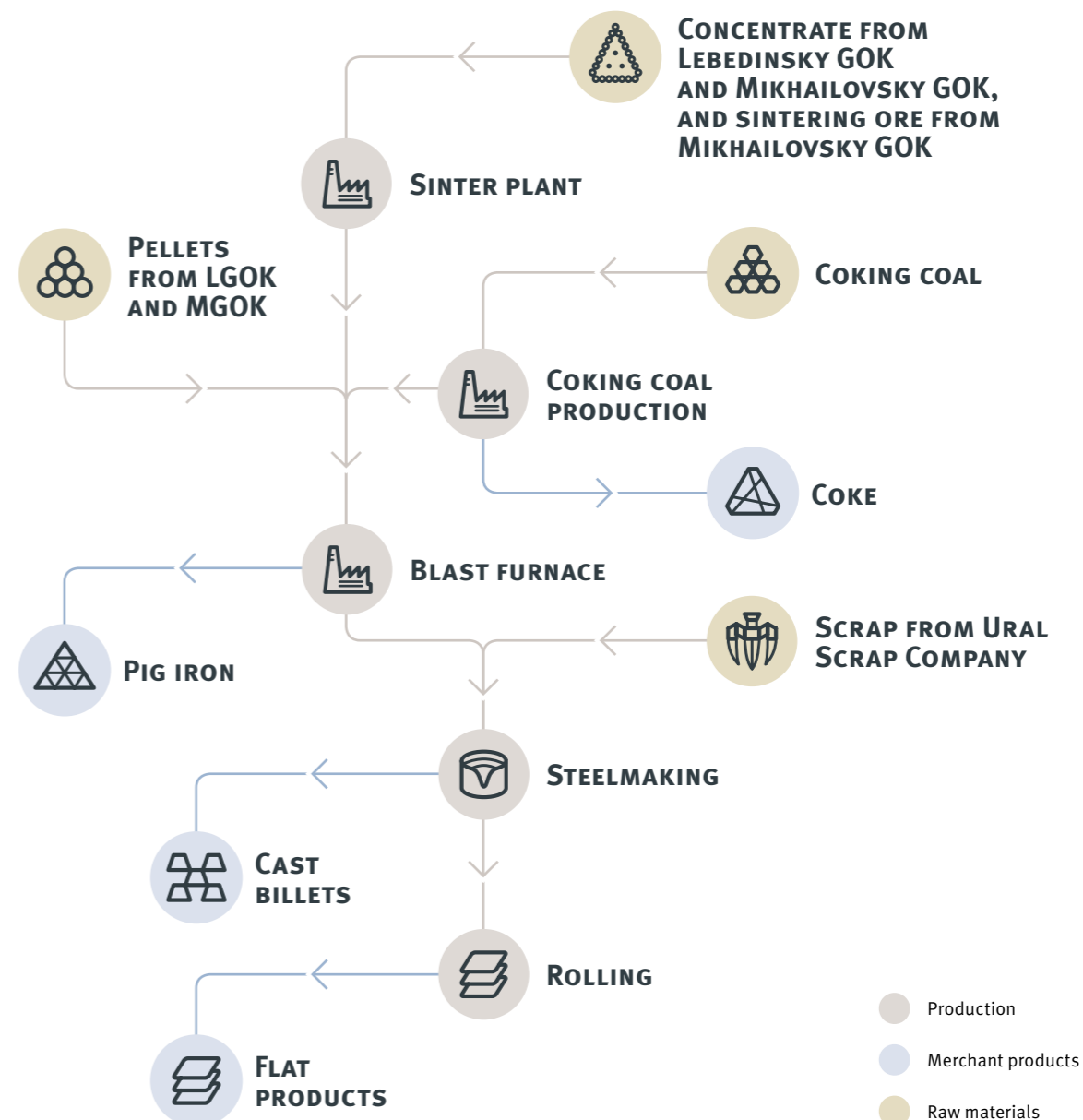


PRODUCTION FIGURES FOR 2014

 **2.3**
MILLION TONNES
PIG IRON

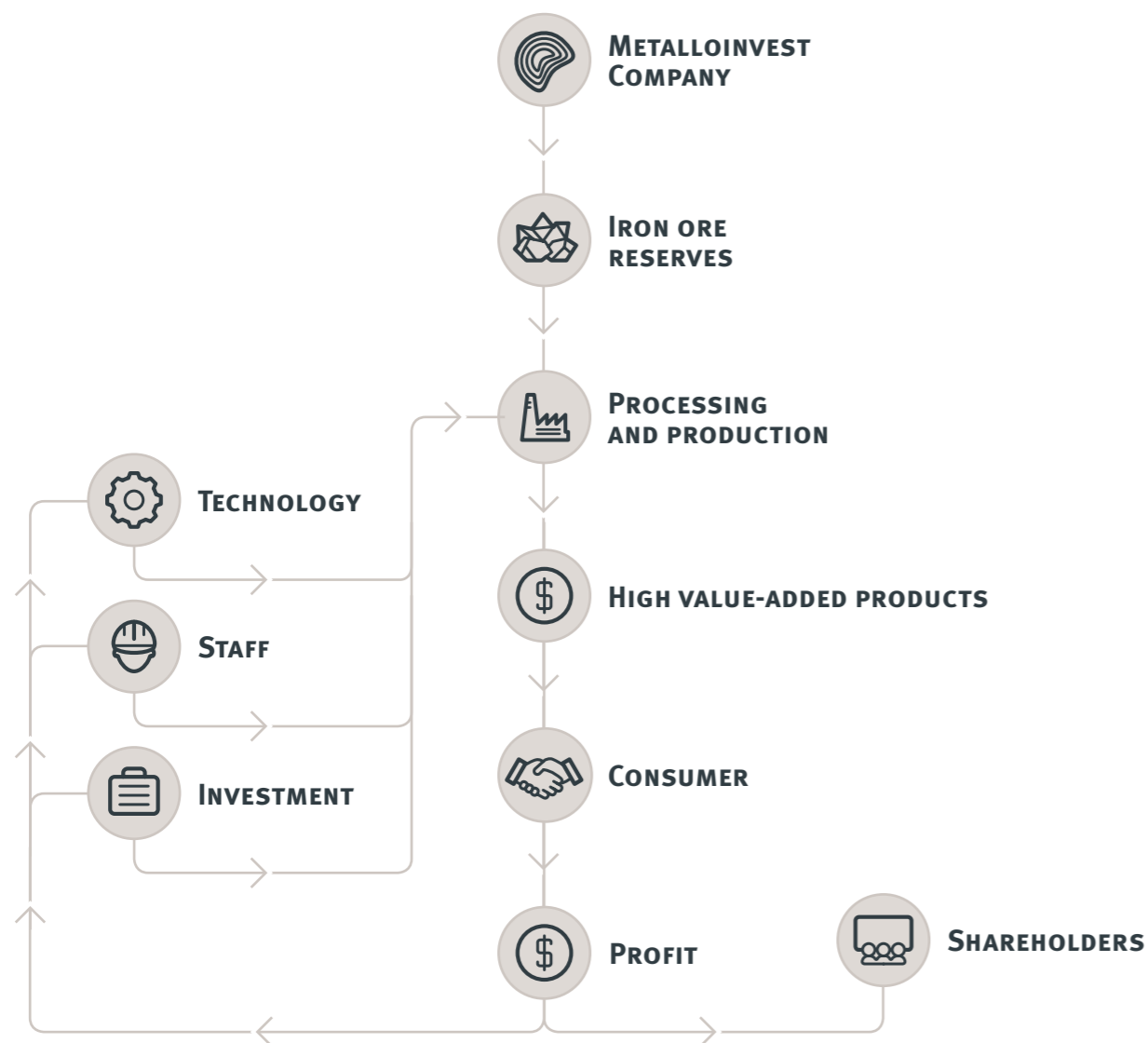
 **1.1**
MILLION TONNES
STEEL

MAIN TECHNOLOGICAL PROCESSES OF URAL STEEL





/ METALLOINVEST'S BUSINESS MODEL



2.5 LONG-TERM STRATEGY

METALLOINVEST'S STRATEGY IS AIMED AT STRENGTHENING THE COMPANY'S LEADING POSITIONS IN THE HBI/DRI SEGMENT IN THE GLOBAL MARKET, AND IN THE IRON ORE PRODUCTS SEGMENT IN THE REGIONAL MARKET.

MISSION

To be the Company which effectively extracts and processes iron ore raw materials into metallised and high-quality steel products to ensure the growth of the Company's long-term value, and the development of staff and society.

STRATEGIC GOALS

- Increase the scale of the business and achieve higher efficiency
- Grow sales margins
- Increase operational and management efficiency
- Increase investment attractiveness



FOR MORE
DETAILS ON
STRATEGIC GOALS,
SEE P. 39-41

STRATEGIC PRIORITIES

- The effective development of existing iron ore deposits
- Decrease in cost of ore extraction and ore-to-concentrate processing as a result of the optimisation of existing processes and introduction of new technologies
- Increase the Company's share in the global market of metallised raw materials, mainly HBI/DRI
- Strengthen the Company's positions in the high-quality rolled steel market
- Ensure the sustainability of the business and increase the Company's long-term value
- A balanced approach to work that provides for the development of staff and the protection of communities and the environment

YURIY GAVRILOV,
Strategy & Development
Director

“Management of the Company is confident that Metalloinvest’s strategy, based on a well-developed resource base, long-term relationships with the largest consumers and a stable financial position, will allow the Company to maintain leading positions in the market and provide conditions for stable development. We pay particular attention to the comprehensive analysis of current and prospective conditions of the markets, and our results and achievements. The current strategy ensures our prompt reaction and continued sustainable development under various market conditions”.

VALUES OF THE COMPANY:

Leadership

Metalloinvest is a highly efficient company. It has the second largest iron ore reserves in the world. The Company is a global leader in merchant HBI production, a regional leader in iron ore raw materials production, and a leader in the high-quality steel products segment.

Responsibility

Compliance with the law; social and environmental responsibility in the regions where the Company operates, responsibility to shareholders for the achievement of set goals.

Teamwork

The Company operates as a single whole. It is cooperative and strives to be a reliable partner to its business counterparties. It encourages trust, respect and readiness to help among its employees and partners.

Efficiency

THE COMPANY SETS GOALS AND ACHIEVES THEM.

A Corporate Competencies Model was developed in 2014 based on Metalloinvest’s values. It is aimed at improving competence of each employee of the Company.

FOR MORE DETAILS
ON THE CORPORATE
COMPETENCIES
MODEL, SEE P. 109

STRATEGIC GOAL: INCREASE THE SCALE OF THE BUSINESS AND ACHIEVE HIGHER EFFICIENCY

The effective development of existing iron ore deposits

Metalloinvest has the second largest iron ore reserves in the world. The Company develops deposits with 14.4 billion tonnes* of iron ore reserves as per JORC international classification, which guarantees approximately 150 years of operation at the current extraction level.

FOR MORE
DETAILS ON THE
GLOBAL IRON ORE
RESERVES, SEE
P. 48–50

Growing the Company’s share in the global market of metallised raw materials

Metalloinvest ships iron ore, metallised products and rolled steel of high quality to consumers, meeting the needs of the industry along the entire chain of value-added products—from iron ore processing to end products for construction, machine building and other industry sectors.

Metalloinvest’s strategy aims to increase the output of merchant HBI, maintaining and gradually strengthening its leading positions in the global market for this type of product. The factors that support stable demand for HBI in the long term are the increasing amounts of steel produced in electric furnaces and tighter requirements for reduced environmental footprint and product quality, as well as the increased demand for scrap alongside a drop in its quality.

The Company is currently constructing the HBI-3 Plant at Lebedinsky GOK and plans to upgrade the HBI-2 Plant by adding a briquette press unit to increase its HBI output. In addition, Metalloinvest is considering the possibility of building HBI production units at Mikhailovsky GOK in the future.

Metalloinvest has upgraded Metallisation Unit #3 OEMK with the view to increasing DRI output. The enterprise is already planning the overhaul of Metallisation Unit #4 and the upgrade of Metallisation Unit #2.

Optimisation of existing processes and introduction of new technologies

The Company plans to increase concentrate production at Mikhailovsky GOK by introducing new technologies for the beneficiation of oxidised quartzites. The successful completion of tests and the construction of an oxidised quartzite processing plant will allow increased iron ore concentrate production at Mikhailovsky GOK and considerable improvements to the efficiency of the enterprise’s operations.

Together with Outotec, Mikhailovsky GOK employees developed technological specifications and prepared a preliminary technical and economic feasibility study of the project (with the participation of IMC Montan). Pilot testing of beneficiation process was started at section #14 of the crushing and sorting plant at Mikhailovsky GOK in 2014, with the aim to eliminate technological risks and to identify optimal conditions for the beneficiation process.

FOR MORE DETAILS
ON INVESTMENT
PROJECTS OF THE
COMPANY, SEE
P. 42–45



STRATEGIC GOAL: GROW SALES MARGINS

Increasing the Company's share in the global market



FOR MORE
DETAILS ON THE
GEOGRAPHY
AND THE
STRUCTURE OF
THE SHIPMENTS,
SEE P. 68–72

THE COMPANY'S MAIN SALES MARKETS ARE THE RUSSIAN FEDERATION, EASTERN AND WESTERN EUROPE, AS WELL AS COUNTRIES IN ASIA, THE MIDDLE EAST AND NORTH AFRICA.

Metalloinvest determines the geography of its shipments depending on the conditions and outlook in regional markets. A flexible logistical chain (multimodal (land & sea) routes to Asia and Europe through the ports of the Black Sea and the Baltic Sea) makes the Company a strong competitor both to leading global suppliers and to local producers.

Decreasing production cost

The cost of pellet and HBI/DRI production at Metalloinvest's enterprises is significantly lower than that achieved by its global competitors. According to Company data, in 2014, Metalloinvest maintained its production cost levels in the top quartile among global manufacturers.

THE MAIN FACTORS SUPPORTING THE LOW COST OF PELLET AND HBI/DRI PRODUCTION AT METALLOINVEST'S PLANTS ARE:

- availability of an extensive resource base;
- the development of open-pit mines at the Company's cost, without third-party investments;
- use of low-cost magnetic separation as the primary method of iron ore beneficiation;
- "zero" operational costs for shipping iron ore concentrate from Lebedinsky GOK to OEMK through a 26-kilometre slurry pipeline;
- energy-efficient production technology;
- availability of the necessary infrastructure (natural gas, electricity, railways and roadways, etc.).

In 2014, the Company continued to implement a programme aimed at decreasing ore extraction and processing costs and improving products' competitiveness in the global market. This programme included the switch to heavy pit equipment as part of the mining and transport unit development programmes.



FOR MORE
DETAILS ON THE
MINING AND
TRANSPORT
COMPLEX
DEVELOPMENT,
SEE P. 42–43

STRATEGIC GOAL: INCREASE OPERATIONAL AND MANAGEMENT EFFICIENCY

Creation of optimal structure with separation of powers and responsibilities

Metalloinvest is currently implementing measures to increase the efficiency of its structural divisions. A pilot project is being performed to form a single centre for repairs planning and control. This project will allow the performance of repair services to be optimised, the standardisation of the planning and repairing processes and a united system of repair schedules to be built. The Company plans to unify the equipment and machinery used in its enterprises in the future.

Increased efficiency and productivity due to the automation of business processes

The Company plans to introduce an ERP automation system for planning all business processes. The project will allow Metalloinvest to switch to a rolling planning process and give its partners the ability to track their orders online.

Dynamic response to internal and external changes

Metalloinvest works on strengthening its risk management system by establishing a separate division for this function. At first, the Company plans to introduce a system for the categorisation and assessment of possible events that relate to different risks to the Company's activity. At the next stage, the Company will develop regulations and introduce procedures to respond to risks and perform quantitative assessment of the potential damage to the Company.

STRATEGIC GOAL: INCREASE INVESTMENT ATTRACTIVENESS

Transparency in financial reporting and a clear corporate strategy are important factors to increase the investment attractiveness of a business.

Metalloinvest continuously increases the level of public disclosure and the frequency of its interaction with the investment community, striving to comply with international best practices of information disclosure. At present, the Company discloses its financial and operational information, as well as information on social projects and other activities, at the levels and within the timeframes associated with public company practices.

Metalloinvest participates in international conferences organised by investment banks and arranges investors events, including non-deal road shows and the annual Investor Day, continuously developing the base of existing and potential investors. Many investors and analysts are given the opportunity to visit the Company's production assets.

Communication with rating agencies is an integral part of the Company's work to increase its investment attractiveness. The Company has been receiving credit ratings by agencies since July 2010.



2.6 INVESTMENT PROGRAMME: 2014

IN 2014, THE COMPANY'S INVESTMENTS AMOUNTED TO USD 595 MILLION, COMPARED TO USD 478 MILLION IN 2013. THE MAJOR INVESTMENT PROJECTS OF THE COMPANY ARE AS FOLLOWS:

- construction of Pellet Plant #3 (PP-3) at Mikhailovsky GOK;
- construction of the third hot-briquetted iron plant (HBI-3 Plant) at Lebedinsky GOK;
- construction of an oxygen facility at OEMK;
- construction of Coke Oven Battery #6 (CB-6) at Ural Steel;
- purchase of new high-capacity pit equipment for the Company's Mining Segment.

MINING SEGMENT

Strengthening positions in HBI: construction of HBI-3 Plant at Lebedinsky GOK

The construction of HBI-3 Plant is the key strategic investment project of the Company.

The project that provides for the development, production and supply of the equipment, as well as the automation of the first and the second stages is being implemented by a consortium of Primetals Technologies and Midrex Technologies, which signed a contract with Metalloinvest in August 2012. Giprometz, a Russian industrial engineering company, and a part of Metalloinvest, is also involved in the implementation of the project.

After the HBI-3 Plant is completed, it will become the largest HBI production module in the world. Its production capacity will amount to 1.8 million tonnes per year. The implementation of the project will allow Metalloinvest to meet steel plants' growing demand for high-quality raw materials and maintain global leadership in the production of merchant HBI.

Efficient development of iron ore base: switching to high-capacity equipment for mining and transport operations

The efficiency of mining and transport operations is an important factor in ensuring the efficiency of the Mining Segment.

In 2014, Metalloinvest continued to implement the modernisation programme for its mining and transport units. The implementation of the main stage started in 2013, when the enterprises were equipped with six Caterpillar dump trucks with a load capacity of 180 tonnes and two BelAZ trucks with load capacities of 220 and 160 tonnes.

The Company has significantly accelerated implementation of the programme in 2014. Five Caterpillar dump trucks with a load capacity of 180 tonnes, six BelAZ dump trucks with load capacity 130 tonnes and one BelAZ with 220 tonnes load capacity were supplied to the Company. Vehicles, purchased in 2014, can carry 1,900 tonnes loads per trip (total load capacity of the dump trucks, purchased in 2013, amounted to 1,460 tonnes).

Heavy-duty Japanese Hitachi excavators, with 23 cubic metre scoops, were introduced at the open-pit mines of Lebedinsky GOK and Mikhailovsky GOK. Together with the introduction of dump trucks with 180–220 tonnes lift capacity, this allowed the enterprises to create excavator and heavy duty truck units to increase the operational efficiency of the Company's Mining Segment.

Lebedinsky GOK's transport fleet was upgraded by four excavators with 10–15 cubic metre scoops. In addition, a unique EKG-20 KM excavator manufactured by P. G. Korobkov IZ-KARTEX Ltd. with a 20 cubic metre scoop was introduced on a trial basis at the plant. The trial will allow the Company to determine feasibility of using this type of equipment in the mining and geological conditions of the plant's pit.

In 2014, Lebedinsky GOK and Mikhailovsky GOK received a total of 11 heavy-duty dump trucks, 10 excavators, 3 drilling rigs, 10 pulling units and 100 dump cars.

Strengthening market position of the high-processing iron ore segment: the construction of Pellet Plant #3 at Mikhailovsky GOK

The construction of the Pellet Plant #3 unit is a unique project in terms of its scale and significance. The unit will allow Metalloinvest to increase the annual pellet production capacity of Mikhailovsky GOK by 5 million tonnes, to 15 million tonnes per year.

The production unit under construction will include the technology for all of the processing stages: from iron ore concentrate filtration and pelletising facilities to pellet firing and shipping.

In 2014, after the construction and installation work was completed, processing unit and external infrastructure objects were prepared for commissioning. In February 2015, the Company started gradually commissioning the unit's main equipment.

The unit is notable for its innovative process design solutions and equipment, which include: automatic systems that control the parameters of the system and monitor the production process, an improved gas-air flow system compared with existing pellet plants that allows emission to be minimised, higher capacity and better energy indicators.

Efficient development of the iron ore base: up to 10 million tonnes of concentrate per year is produced from oxidised quartzites at Mikhailovsky GOK

The modernisation of sector 14 of the crushing and sorting plant (DOK) at Mikhailovsky GOK was completed in December of 2014. It was designed to carry out pilot testing and produce hematite-magnetite concentrate from oxidised quartzites.

As part of the modernisation project, a new high-intensity magnetic separation unit was built and three high-intensity separators by EriezMaqnetics, Longi and Outotec were put into operation.

The project was implemented by Outotec, one of the world's leading engineering companies in the field of ore-beneficiation technology, which developed the technological specifications. The work was carried out by the Urban Institute for Metallurgical Plants Design LLC (Giprometz) and engineering plans were developed by the Engineering Directorate of Mikhailovsky GOK.

The experiment involves the production of concentrate from oxidised ferruginous quartzites in industrial volumes using existing production facilities for ore grinding. The beneficiation of oxidised ferruginous quartzite is completed through magnetic flotation, achieved with equipment that uses a high-intensity magnetic separation method.

Beneficiation specialists managed to obtain a regulated amount of the concentrate in course of work, which contains up to 66% of ferrum and less than 5% of silica. Conducting the experiment will allow the Company to confirm the feasibility of the process solutions and to correct, if needed, technological specifications for further new plant design.

The decision on further project implementation will be taken after the pilot experiment has been completed.



STEEL SEGMENT

Increases in operational efficiency: construction of an air separation unit at OEMK

The oxygen plant was designed and constructed in 2012–2013.

The equipment of the new oxygen plant with a cryogenic air separation unit (VRU #3) was supplied by Linde (Germany). The plant's capacity is 20,000 cubic metres of oxygen and nitrogen per hour and 1 tonne of crystallised argon per hour.

In 2014, process equipment was installed. In December 2014, the plant was put into trial operation and in March 2015 it will enter full industrial operation.

The new plant will provide OEMK the air separation products needed for the decommissioning of VRU #2 unit with expired regulatory service term and for putting the new oxygen-consuming units into operation in blast furnace shop.

Maximised profitability of the Steel Segment: Construction of Coke oven battery #6 at Ural Steel

Coke Oven Battery #6 (KB-6) was put into trial operation in 2014. The Company plans to complete the remaining work on KB-6 and the reconstruction of the coke and by product production facilities at Ural Steel in the first half of 2015.

This project will increase coke production capacity, which will reduce the dependence on external suppliers and decrease production costs, as well as improving the consistency of coke quality.

In addition to the construction of Coke Oven Battery #6, the project involves the construction of a dust-free coke emission unit, which captures and purifies gas emissions from residual dust. The project also provides for the installation of wastewater treatment and the construction of additional power facilities for coke production. This will reduce the unit's environmental footprint.

Modernisation of production assets: Upgrading the main facilities and the reconstruction of production assets at Ural Steel

The modernisation of the casting bay of the blast furnace shop was performed at Ural Steel in 2014. This increased production volume of cold pig iron up to 1.9 million tonnes per year, due to the increased working run time of pig iron casting machines #1–4 in the blast furnace shop. Modernisation measures allowed the Company to increase the amount of pig iron poured into ladle capsules and to cut the time taken to prepare ladle capsules for pig iron casting on casting machines.

The early detection system for the continuous casting machine #2 was reconstructed. This allowed for increased casting quality and decreased the risks of disruption of production programmes.

As part of the overhaul of the 2800 plant, the frequency inverter of its main drives was replaced.

3

FINANCIAL AND OPERATIONAL RESULTS

“In 2014, Metalloinvest has focused its efforts on developing the Company’s production assets and achieving strong financial results. Metalloinvest has continued to implement its strategy and has reached its targets. It has maintained a strong financial footing and realised its production targets, while exceeding production forecasts for some products”.



ANDREY VARICHEV,
CEO Management Company
METALLOINVEST LLC

MARKET
OVERVIEW



FINANCIAL
RESULTS



OPERATIONAL
RESULTS





3.1 MARKET OVERVIEW

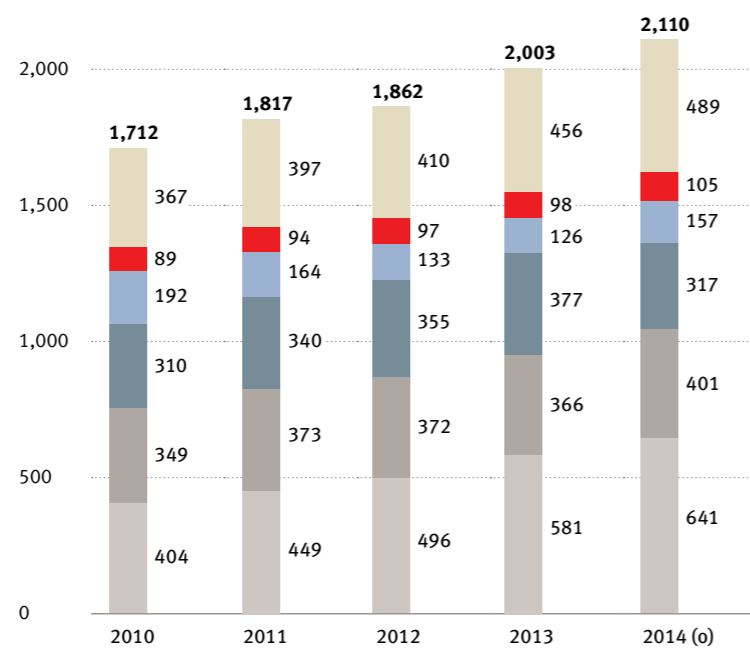
MINING AND STEELMAKING ARE CAPITAL INTENSIVE BUSINESSES, THEREFORE, THE ACCURACY OF DECISIONS TAKEN TODAY WILL NOTABLY AFFECT THE COMPANY'S PERFORMANCE RESULTS IN THE FUTURE. THUS, A LONG-TERM MACROECONOMIC AND STRATEGIC ANALYSIS OF THE SALES MARKETS, BOTH RUSSIAN AND GLOBAL, IS THE FOCUS OF ATTENTION OF THE COMPANY'S MANAGEMENT. THE COMPANY'S MANAGEMENT CONTINUALLY EXAMINES STRATEGIC OPPORTUNITIES AND EVALUATES THEIR "VIABILITY", INTER ALIA, TAKING INTO ACCOUNT LONG-TERM TRENDS IN THE WORLD AND RUSSIAN ECONOMY.

IRON ORE MARKET

The world market of iron ore displays a high level of consolidation. Four leading companies (Vale, BHP Billiton, Rio Tinto, and FMG) control over 70% of the world iron ore trade. The leading countries producing commercial iron ore are Australia, Brazil, China, India and Russia, which together produce over 75% of iron ore. In 2014, different trends in iron ore production volumes were observed across the regions. Production of ore grew in Australia and Brazil only while in output in other regions decreased or remained at the level of 2013. Iron ore production by Russian mining and ore concentrating enterprises in 2014 amounted to 105 million tonnes, slightly above the level of 2013.



Iron Ore Production by Countries,
million tonnes

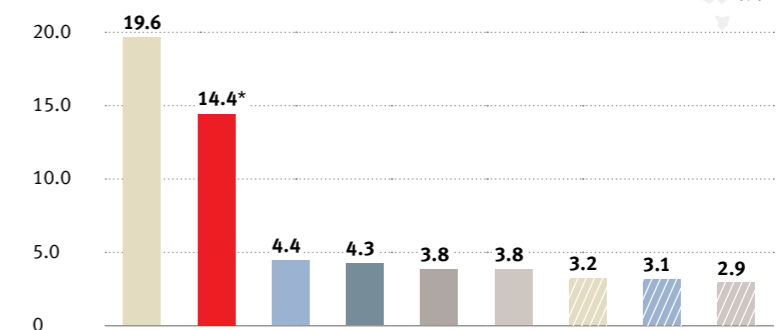


Source: WSA

(O) — scoring



Global Iron Ore Reserves in 2014,
billion tonnes



Source: AME * Company's data as of 31/12/2014

In 2014, the average annual iron prices dropped to USD 97 per 1 tonne CFR China, less than the price level for 2013 (USD 135 per 1 tonne CFR China); and in fact, the price dropped to a minimum of USD 71 per 1 tonne CFR China at the end of the year. Price continued to slide in Q1 of 2015.

The price mostly declined because of the economic situation of China, the largest steel producer in the world with 2/3 of the world's iron ore import. Two factors, a considerable additional volume of CIO (crude iron ore) supply from Australia due to the growing production by Rio Tinto, BHP Billiton and FMG, and a slowdown of the Chinese economy, made the most significant impact on the prices.

Limited access to credit resources for the Chinese steel producers in 2014 and a consequent increase in stocks of ore in the harbours, had a further impact on CIO prices.

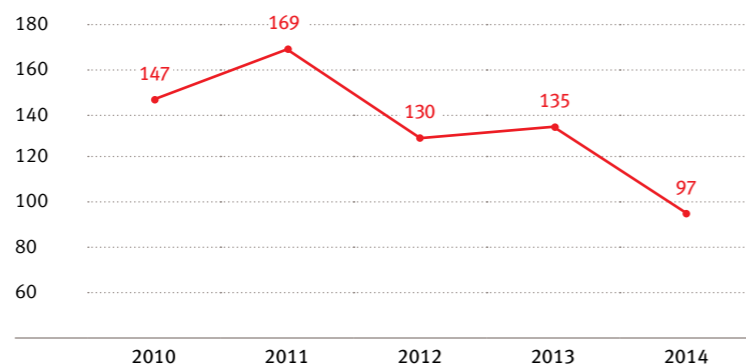
Long-term development trends in the CIO market take shape under the influence of different factors. On the one hand, ore quality at the world market is gradually deteriorating. Deterioration of the quality of incoming ore increases the costs of steel production and leads to increased volume of harmful emissions by steelmakers. At the same time, a tougher environmental policy is a growing tendency all over the world. In particular, China, which is still a driving force of the world's demand for CIO follows the example of the developed countries (the USA and European countries), setting the course for toughening of its environmental requirements. A stricter policy implies mitigation of harmful environmental impact of steel-making facilities, inter alia, by improving the quality of CIO consumed.



The toughening of environmental requirements in the global ferrous metallurgy and deterioration of CIO quality set the stage for increasing margins for raw materials with high ferrum content. At the same time, excessive supply of CIO slows down demand for high-quality raw materials. Metalloinvest is conducting targeted work on the assessment of factors influencing the development of CIO market, and considers the findings in the development of mid-term and long-term development plans.



Iron Ore Price in 2010–2014, CFR China, 62% Fe, USD/tonne

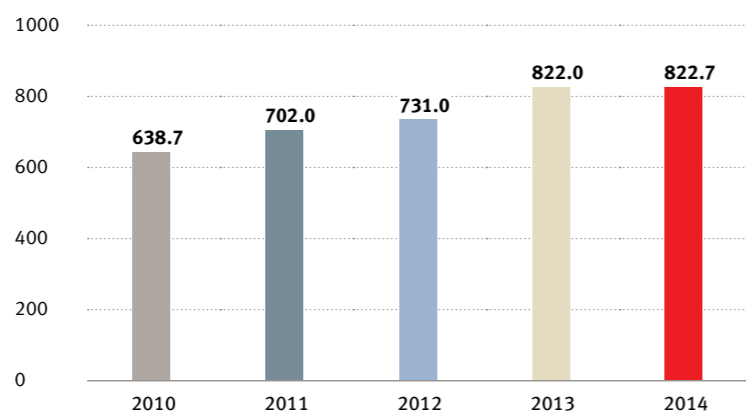


Source: Bloomberg

At present, the price level is determined by the prices at the spot market in China, using the Platts indices, The Steel Index, or the MetalBulletin index. However, in May 2012, two physical iron ore markets opened in Beijing and Singapore. In 2013, trading in ore futures started at the Dalian Futures Exchange (China). The transition to price formation on the spot market continues as price-related information becomes more accessible.



Steel Production in China in 2010–2014, million tonnes



Source: WSA

HBI/DRI MARKET

HBI/DRI (hot-briquetted iron and direct reduced iron) is an important component in the production of high-quality steel grades that helps cut the cost of production of steel products.

The application areas of metallised raw materials vary widely. HBI/DRI may be used at integrated enterprises in blast furnaces and basic-oxygen furnaces, as well as at mini plants in electric arc furnaces. Low concentration of contaminants in HBI/DRI allows to produce high-quality steel, which is a key factor for a number of industries, including automotive and machine-building. In conditions of shortage of high-quality metal scrap, the use of HBI/DRI can ensure stable production of high-quality steel products.

HBI is a high added-value product due to energy efficiency and environmental compatibility of the HBI production process, low concentration of contaminants, stability of chemical composition (the quality of which is better than metal scrap), high bulk density and absence of the seasonal nature of fluctuations of supplies.

High quality of raw iron ore and availability of big volumes of natural gas make for an important prerequisite for the development of HBI/DRI production. The shortage of these resources impedes the growth of HBI/DRI production in many regions of the world.

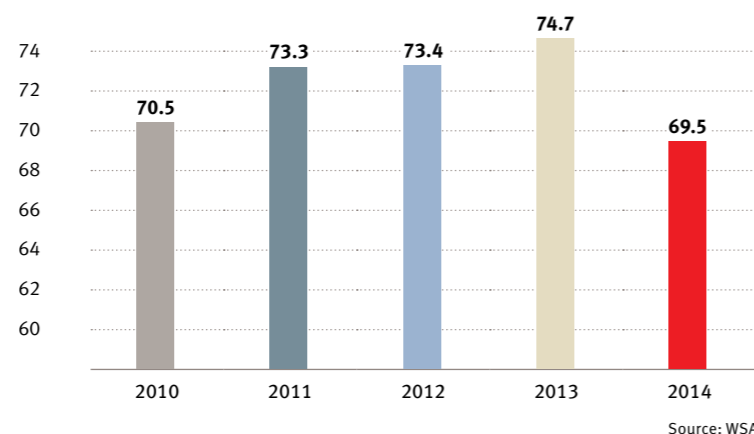
Metalloinvest has all the necessary resources, and the Company's long-term strategy is focused to a large extent on the development of production of iron ore products with high added value, primarily HBI.

HBI/DRI production is characterised by high concentration. As reported by WSA, HBI/DRI produced in 2013 totalled 74.7 million tonnes, 66.6% of which were manufactured by the five largest producers (India—23.8%, Iran—19.4%, Mexico—8.2%, Saudi Arabia—8.1%, and Russia—7.1%). Most metallised raw materials (up to 80%) are consumed on situ to satisfy internal demands of steelmaking enterprises, and only limited amounts are shipped to external consumers.

According to WSA, between 2010 and 2013 the global production of HBI/DRI grew after a decline in output in 2009. In 2014, the global production of HBI/DRI, as estimated by WSA, decreased by approximately 7% to 69.5 million tonnes. The stagnation of metallised raw material production of the largest producers (India and Iran) was accompanied by notable reduction of HBI production in Venezuela and in Trinidad and Tobago. Decrease in the production by Venezuela, the world leader in the HBI production capacities, allowed Metalloinvest to strengthen its positions at the world market of commercial HBI.



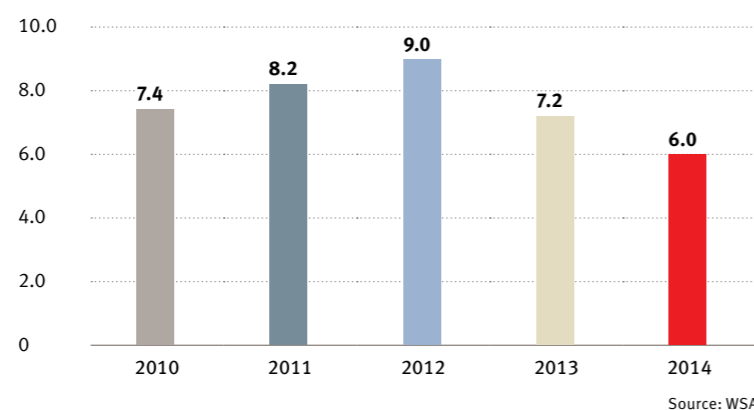
**Global HBI/DRI
Production,**
million tonnes



High consumer properties of HBI/DRI favour the promotion of these products at the world market. As reported by Midrex, a reputable source of metallised raw material market statistics, the HBI/DRI production capacities will increase by at least 5 million tonnes a year in the next ten years, and the production volume will grow to 200 million tonnes by 2030.



**Global HBI/DRI
Exports,**
million tonnes



In 2014, Metalloinvest produced 5.3 million tonnes of metallised products (HBI/DRI). The HBI production volume amounted to 2.3 million tonnes, 81% of which has been shipped for export (the main consumers are large EU and US steelmaking companies). Metalloinvest is the only producer of metallised products in CIS countries and maintains the leading position in global DRI exports. Metalloinvest with about 40% share of the world commercial DRI market in 2014 uses all available opportunities to meet the growing demand from high-grade steel producers.

FACTORS SUPPORTING HBI/DRI DEMAND:

- HBI/DRI is a multi-purpose, high-quality and effective alternative to pig iron and metal scrap. HBI/DRI may be used at integrated enterprises in blast furnaces and basic-oxygen furnaces, as well as at and at mini plants in electric arc furnaces.
- Toughening environmental requirements for the production process. In the light of cheapening of raw material for blast furnaces, requirements for the amount of emissions of harmful admixtures released into the air in the process of production become tougher. Crude steel production in electric arc furnaces excludes the use of coke.
- Deterioration of quality of metal scrap. A regular cycle "metal scrap—steel making—steel products—metal scrap" causes the accumulation of contaminants in the ready products. In order to control chemical composition, steel manufacturers add HBI/DRI to metal scraps in steel making units, thus reducing the concentration of contaminants.
- Toughening requirements for the quality of steel products. For the purpose of ensuring quality, reliability and longer service life of steel products (bridge structures, cars, pipelines), the manufacturers of steel structures place high requirements for steel products, which in return results in the need to use high-quality raw material in crude steel production.
- Reduction of the volume and shortage of high-quality return scrap in CIS countries. As a result of cutting the open-hearth steel making and starting the use of electric arc furnaces, as well as implementing continuous steel casting, the amount of return scrap in CIS countries decreased. The tendencies towards increasing the deficit of metal scrap create pre-requisites for a gradual increase in demand for metallised raw materials.

KEY ADVANTAGES OF HBI/DRI PRODUCTION AS AGAINST PIG IRON:

- Compactness of production facilities. HBI/DRI production is more compact and it does not require sinter plants, coke and by-product processes, and blast furnaces.
- Environmental compatibility. Use of natural gas as a reducing agent in the process of HBI/DRI production instead of coke is more environmentally compatible. Reduction of CO₂ emissions is 50–60% compared to production of pig iron in blast furnaces.
- Energy efficiency. The process of direct iron reduction goes on in a solid phase at 900°C, which is much lower than the melting temperature of pig iron, 1,250°C. Energy saving in production of HBI/DRI amounts to approximately 35% compared to production of pig iron.



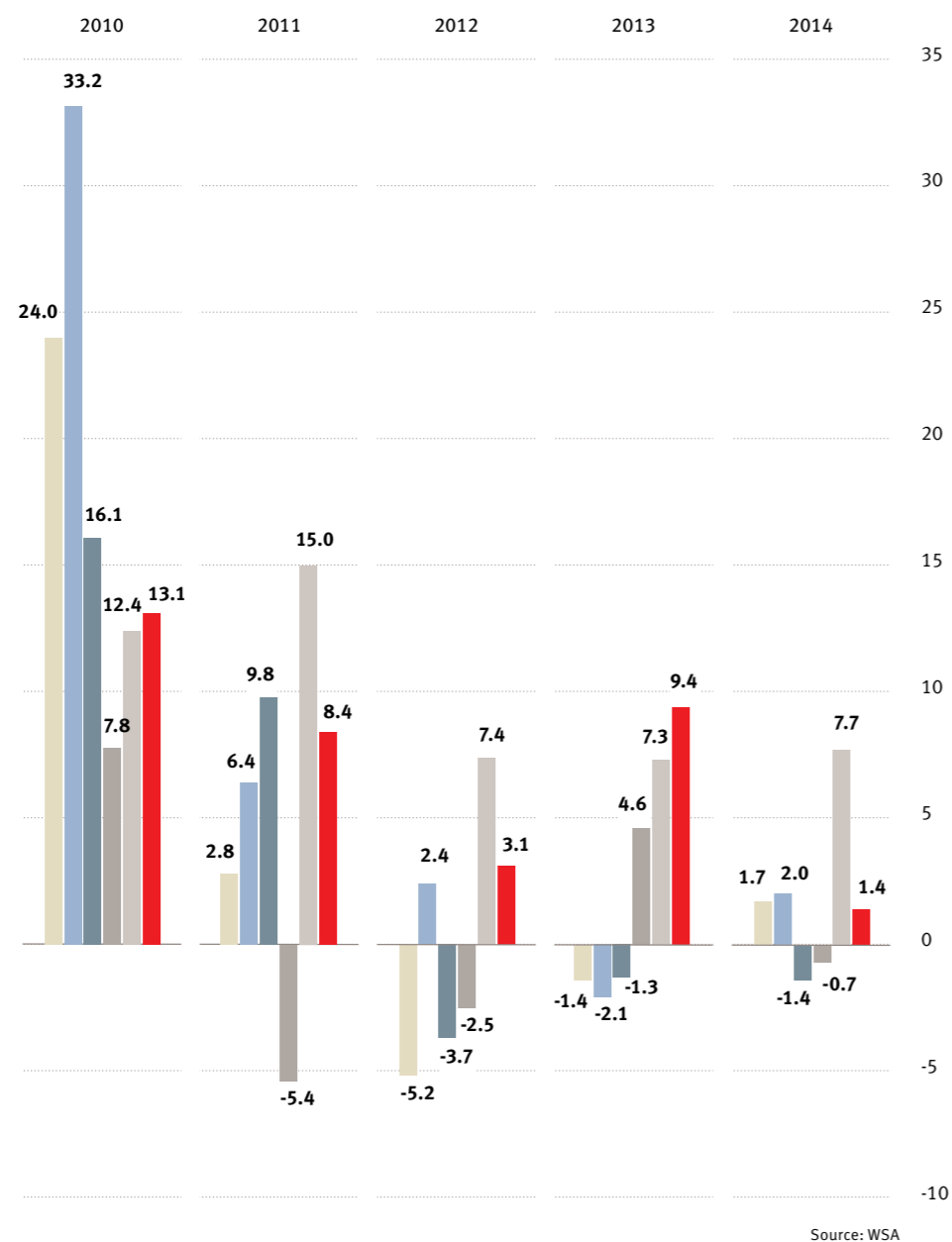
STEEL MARKET

In 2014, global steel production, as reported by WSA, grew to 1,662 million tonnes (+1.2% against 2013). Asia remains the key growing region of the world in steel production in absolute terms, where steel output increased by 16.2 million tonnes (+1.4%). The highest production growth rate was recorded in the Middle East, where steel production in 2014 grew by 7.7% (by 2 million tonnes). Steel production in the European Union is gradually recovering, rising 1.7% in 2014 (+2.9 million tonnes). In North America, steel production grew by 2% (+2.3 million tonnes). In Africa, production declined (by 0.7% or by 0.2 million tonnes year-on-year). In other regions, production volumes dropped as well: in the CIS by 2.8% (by 3 million tonnes), in South America by 1.4% (by 0.6 million tonnes).



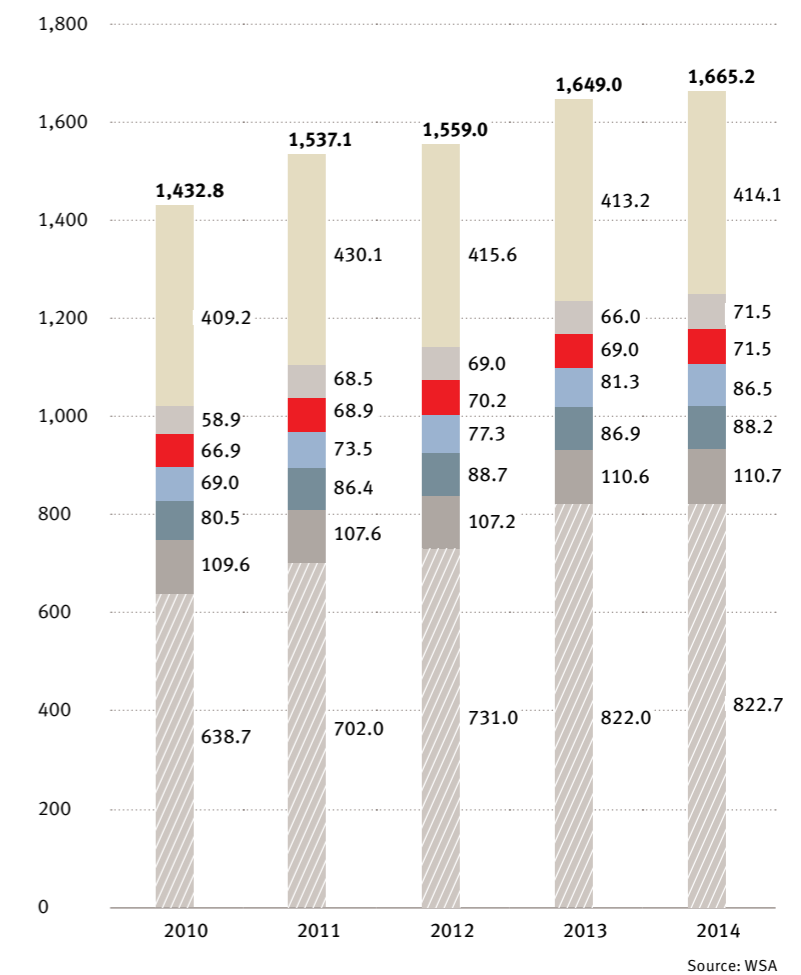
Growth in Steel Production by Regions in 2010–2014, %

EU
N. America
S. America
Africa
Md. East
Asia



Steel Production by Leading Manufacturers in 2010–2014, million tonnes

Other
S. Korea
Russia
India
USA
Japan
China



IN 2014, METALLOINVEST MAINTAINED ITS LEADING POSITIONS IN THE WORLD MARKET:



THE GLOBAL LEADER

at the market of commercial HBI



2ND LARGEST

iron ore reserves in the world (14.4 million tonnes)



3RD PLACE

largest producer of pellets globally



FACTORS AFFECTING COMPANY'S ACTIVITY

Metalloinvest supplies products to all largest world markets, the Russia, Eastern and Western Europe, Asia and the Middle East being its priority regions. The macroeconomic situation in these countries influences the Company's activities and affects the changes in the Company's revenue from the sale of goods, products, work, services, and income (loss) from its core activities. Forming its long-term commercial relations with the largest consumers of its products in Russia, Metalloinvest seeks to ensure stable supplies despite a decline in the country's GDP predicted by the International Monetary Fund (IMF) in the next two years. In spite of unfavourable macroeconomic conditions in the Russian Federation and in some regions consuming Metalloinvest's products, the Company maintains sales of its products and aims to increase them and continues to optimise the structure of supplies in order to maximise its income and strengthen long-term relations with the consumers.



**GDP Growth
in 2014–2016,
%**

	2014	2015*	2016*
World economy	3.3	3.5	3.8
Developed countries	1.8	2.4	2.4
Developing countries	4.4	4.3	4.7
China	7.4	6.8	6.3
Russia	0.6	-3.8	-1.1

* forecast Source: IMF

Shipments to Russian consumers represent a substantial share of the Company's revenue (41.1% in 2014 vs. 45.6 % in 2013), therefore, the state of the Russian economy significantly impacts the Company's performance.

Introduction of sanctions and low oil prices resulted in the reduction of predicted growth rate of the Russian economy (-3.8% in 2015 and -1.1% in 2016). However, it is expected that the need to maintain economic activity in Russia will lead to an increase in infrastructure projects and will support the niche markets in which the Company operates. Metalloinvest monitors carefully the largest federal investment programmes and adjusts its plans to build on opportunities provided by these projects.

3.2 FINANCIAL RESULTS

3.2.1. KEY FINANCIALS

Revenue

In 2014, the Company's revenue dropped by 13.1% to USD 6,367 million from USD 7,324 million in 2013.

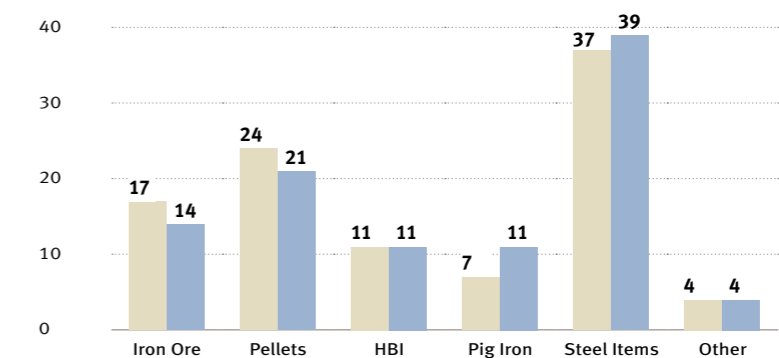
The revenue of the Mining Segment made up 48.7% of the Company's consolidated revenue in 2014 as compared to 54.1% in 2013. The revenue of the Mining Segment decreased by 21.6% during the year to USD 3,103 million, primarily because of the declining global iron ore and pellet prices, and devaluation of the ruble.

The revenue of the Steel Segment amounted to 48.1% of the Company's consolidated revenue in 2014 compared to 43.7% in 2013. The revenue of the Steel Segment declined by 4.5% in 2014 and amounted to USD 3,060 million due to the weaker ruble.



**Revenue by Product
in 2013–2014,
%**

2013
2014



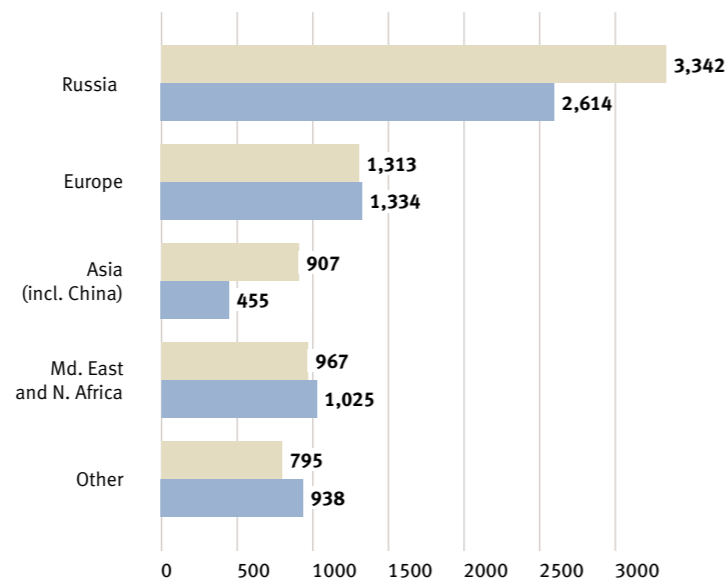
In 2014, the share of the domestic market in the Company's revenue decreased to 41.1% from 45.6% in 2013, primarily due to the devaluation of the ruble. The shares of Europe and the Middle East in the Company's total revenue in 2014 amounted to 21.0% and 16.1% respectively. Asia (including China) generated 7.1% of the revenue.

PAVEL MITROFANOV,
Deputy CEO — Chief
Financial Officer

“In 2014, the Company's management ensured the stability of Metalloinvest's financial position in spite of challenging external conditions and declining global iron ore prices. We focus on meeting our operating efficiency targets and on the implementation of our investment programme. This lays the foundation for sustainable development of the Company as a producer of metallised and iron ore products with high added value”.

Revenue by Sales
Markets in 2013–2014,
USD million

2013
2014



Cost of Sales and commercial expenses

In 2014, costs of sales amounted to USD 3,381 million (representing 53.1% of the revenue for the period compared to 53.4% in 2013), a 13.6% decrease from 2013. Cost of sales dynamics was a result of the ruble depreciation and the implementation of a programme of operational improvements aimed at optimisation of costs of natural gas, electricity and other items of expenditures.

In 2014, distribution expenses decreased by 15.8% to USD 965 million, primarily due to the weakening of the ruble, changes in the geography of supplies and optimisation of rolling stock costs in the course of implementation of a cost-cutting programme.

In 2014, general and administrative expenses decreased by 4.2% to USD 451 million. The general and administrative expenses amounted to 7.1% of the revenue, slightly above the level of 6.4% in 2013.

Profitability

The Company's EBITDA stood at USD 1,961 million, representing a decrease of 14.4% year-on-year, while the EBITDA margin remained almost unchanged at 31%. The decrease in EBITDA was primarily caused by the reduction of EBITDA of the Mining Segment (by USD 713 million), which was partially compensated by an increase in EBITDA of the Steel Segment (by USD 399 million).

The EBITDA of the Mining Segment stood at USD 1,366 million (a decrease of 34.3%), or 69.7% of the consolidated EBITDA in 2014 as compared with 90.7% in 2013. The decrease of the EBITDA of the Mining Segment was primarily caused by declining world prices for iron ore. The EBITDA of the Steel Segment increased by USD 399 million in 2014 to USD 421 million. The share of the Steel Segment made up 21.5% of the consolidated EBITDA in 2014. A significant growth of EBITDA of the Steel Segment is primarily explained by a decline in the prices of raw materials, optimisation of energy and transportation costs, higher volumes of pig iron exports and changes in the structures of steel product shipments.

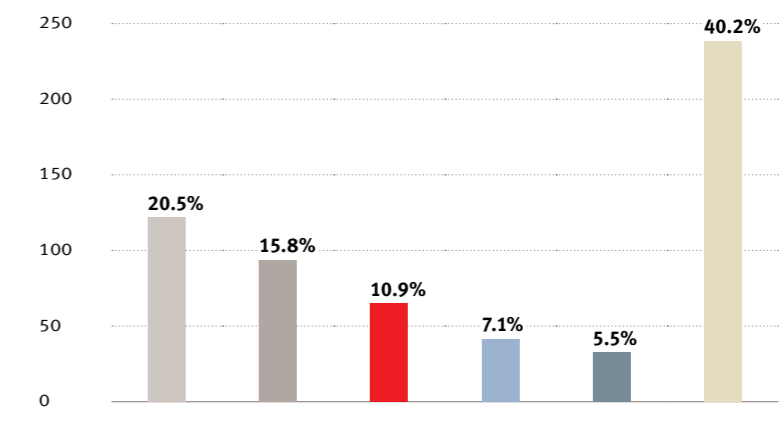
In 2014, net income amounted to USD 66 million, representing a 93.9% decrease year-on-year. The decline was primarily due to the exchange differences accrued to the USD-denominated part of the Company's debt (USD -1,666 million).

Capital Expenditure

In 2014, the Company's capital expenditure totalled USD 595 million, an increase of 24.5% year-on-year. The increase in the capital expenditure is associated with the implementation of large investment projects: purchase of open-pit mining machinery for the Company's Mining Segment, construction of HBI-3 Plant (Lebedinsky GOK), Pellet Plant #3 (Mikhailovsky GOK), oxygen station (OEMK), and Coke Oven Battery #6 (Ural Steel).

Capital Costs in 2014,
USD million

Purchase of new machinery
Construction of Pellet Plant #3
Construction of HBI-3
Construction of an oxygen plant
Construction of Coke Oven Battery #6
Maintenance costs and others





Statement of financial position

As of December 31, 2014, the Company's assets stood at USD 7,266 million, having declined by 30.5% from USD 10,451 million as of December 31, 2013. The decrease in assets figure was primarily due to the asset value conversion into USD for reporting purposes.

As of December 31, 2014, the Company's net debt decreased to USD 4,185 million, which reduced its net debt/EBITDA ratio to 2.13x vs. 2.38x as of December 31, 2013.

The share of long-term debt dropped to 86.4% at the end of the reporting period as compared with 96.8% as of December 31, 2013. The decrease was caused by conversion of a part of long-term debt to the category of short-term debt due to the execution of a put option on RUB-denominated bonds for series 01, 05 and 06, in March of 2015. The Company used its own funds to repurchase 24,957,182 bonds at par value of RUB 1,000. As a result of the transaction, the Company reduced its debt by USD 420 million and has almost no debt to be repaid in 2015.

As of December 31, 2014 cash and cash equivalents totalled USD 550 million compared to USD 523 million as of December 31, 2013 (an increase of 5.2%).

Dividends

When taking a decision on dividend payments, the Company considers the long-term business development prospects and current debt level. In June 2014, the Annual General Meeting of Shareholders of Holding Company METALLOINVEST JSC decided to pay dividends from its 2013 net income and retained profit of the previous years. The amount of dividend payments was USD 502 million. The money has been spent to repay loans issued by the Company to its shareholders earlier.

3.2.2. CAPITAL MARKETS

Starting from 2011, Metalloinvest has been raising funds on capital markets, in line with its strategy to increase the share of long-term and public debt and diversify the sources of financing.

In March 2014, Metalloinvest closed a deal to obtain a pre-export finance facility (PXF) from a club of international banks for the total amount of USD 1,150 million and to repay the previous syndicated loan.

The PFX was divided into two tranches: the first tranche in the amount of USD 300 million will be repaid in a lump sum in March 2016; the second tranche in the amount of USD 850 million will be repaid on a monthly basis in equal installments from April 2016 to March 2019. Both tranches have floating interest rates linked to LIBOR.

The coordinators and book-runners were Deutsche Bank Amsterdam branch, ING Bank NV and Société Générale. The main arrangers of the deal were CJSC UniCredit Bank, BNP Paribas (Suisse) SA and Crédit Agricole Corporate and Investment Bank. Bank of Tokyo-Mitsubishi UFJ Ltd and Credit Suisse AG also took part in the organisation of the deal.

The previous syndicated loan of USD 3.1 billion was raised by Metalloinvest in April 2011. The Company repaid, before the maturity date, a portion of the loan equal to USD 700 million in the first half of 2012, and USD 1,250 million — in the first half of 2013.

3.2.3. CREDIT RATINGS

International rating agencies have been assigning credit ratings to Metalloinvest from July 2010.

The positive changes in the ratings assigned to the Company during the last four years show that the investment community has appreciated Metalloinvest's efforts to enhance the efficiency of its enterprises.

BETWEEN FEBRUARY AND MAY 2014 STANDARD & POOR'S AND FITCH UPGRADED THE FOLLOWING OF THE COMPANY'S LONG-TERM CORPORATE CREDIT RATINGS:

- Standard & Poor's raised the long-term rating of Metalloinvest from BB- to BB with a Stable outlook. As reported by S&P, Metalloinvest showed its readiness to implement a more predictable financial policy, and improved its debt repayment schedule. Besides, Standard & Poor's raised the rating of public debt instruments of Metalloinvest (Eurobonds) from BB- to BB;
- Fitch raised the credit rating of Metalloinvest from BB- to BB with a Stable outlook. The upgrade reflects Metalloinvest's strong operating portfolio and the Company's progress in the field of corporate governance improvement. Fitch also raised its senior unsecured foreign currency rating from BB- to BB (Eurobonds rating).

In February 2015, Standard & Poor's confirmed the Company's long-term ratings in foreign and national currencies at BB. The confirmation of the BB levels reflects the opinion of Standard & Poor's as to the positive influence of the weaker ruble and the Company's efficient line of products on the financial indicators of Metalloinvest. The outlook has been revised from Stable to Negative due to the growing uncertainty as a result of reduction of prices for iron ore, growing country risk of Russia, and limited access of Russian corporations to capital markets.

In April 2015, Moody's confirmed the Company's corporate level at Ba2 with a Stable outlook. At the same time, Moody's confirmed the ratings of debt securities issued by Metalloinvest Finance Limited at Ba2 with a Stable outlook. The confirmation of Ba2 ratings reflects the opinion of Moody's that the competitive position of Metalloinvest on the cost value remains strong in the light of ruble devaluation in 2014. These improvements combined with the adequate liquidity level and continued reduction of the debt load in 2014 and in the beginning of 2015 allowed the Company to stay in the category of Ba2 ratings, and will set off to a certain extent the negative effect from the weakening of iron ore prices.



Credit Ratings

FitchRatings

STANDARD & POOR'S
RATINGS SERVICES
McGraw Hill Financial

Moody's

	FITCH	STANDARD & POOR'S	MOODY'S
LONG-TERM CORPORATE RATING	BB	BB	Ba2
OUTLOOK	Stable	Negative	Stable
DATE	May 2014	February 2015	April 2015



3.3 OPERATIONAL RESULTS

3.3.1. KEY OPERATIONAL RESULTS

3.3.1.1. Production and Shipments

	2010	2011	2012	2013	2014	2014/2013	2014/2009
Iron ore*	36.8	40.1	39.8	38.4	38.7	+1.0%	+22.1%
Pellets	22.0	22.4	22.6	22.6	22.7	+0.4%	+17.0%
HBI/DRI	4.5	5.0	5.2	5.3	5.3	-1.1%	+15.2%
Pig iron	2.6	2.5	2.1	2.2	2.3	+4.8%	-17.9%
Steel	6.1	5.8	5.6	4.7	4.5	-3.7%	-30.8%

* Iron ore includes concentrate and sintering ore

	2010	2011	2012	2013	2014	2014/2013	2014/2009
Iron ore*	9.8	12.7	12.5	11.1	11.0	-0.8%	+42.9%
Pellets	13.1	13.6	14.1	13.7	13.9	+1.1%	+24.1%
HBI/DRI	2.1	2.3	2.3	2.4	2.3	-5.7%	+15%
Pig iron	0.9	1.1	0.8	1.4	1.8	+25.0%	+200%
Steel	5.4	5.2	5.1	4.3	4.2	-3.7%	-27.6%

* Iron ore includes concentrate and sintering ore



Output by Product,
million tonnes



Shipments by Product,
million tonnes



ANDREY UGAROV,
First Deputy CEO —
Production Director

“In 2014, we continued our work on enhancing efficiency of Metalloinvest's operations. We are implementing a number of important investment projects designed to increase the production capacity of the Company's Mining and Steel Segments. Modernisation of production assets and introduction of modern technologies allow us to strengthen our market leadership and maintain high quality of our products”.

Iron ore

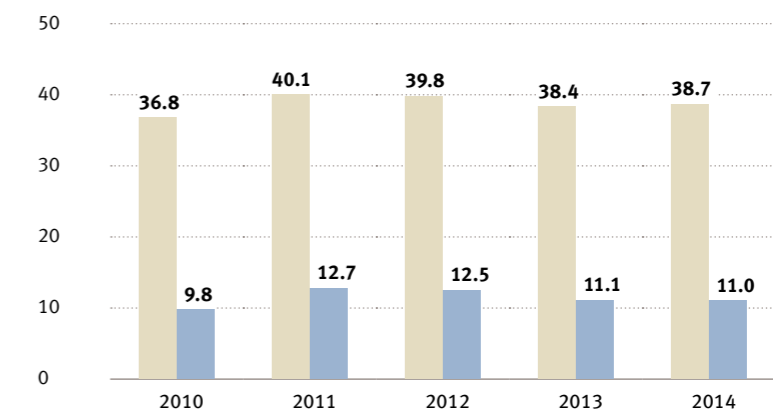
In 2014, production of iron ore (concentrate and sintering ore) amounted to 38.7 million tonnes, 1.0% more than in 2013. Approximately 70% of iron ore was processed into products with high added value, such as pellets and HBI/DRI.

Iron ore shipments to the end consumers declined by 0.8% in 2014 to 11.0 million tonnes. The insignificant reduction of iron ore shipments is explained by the growth of production of pellets.



Iron ore production and shipment in 2010–2014,
million tonnes

■ Production
■ Shipments





Pellets

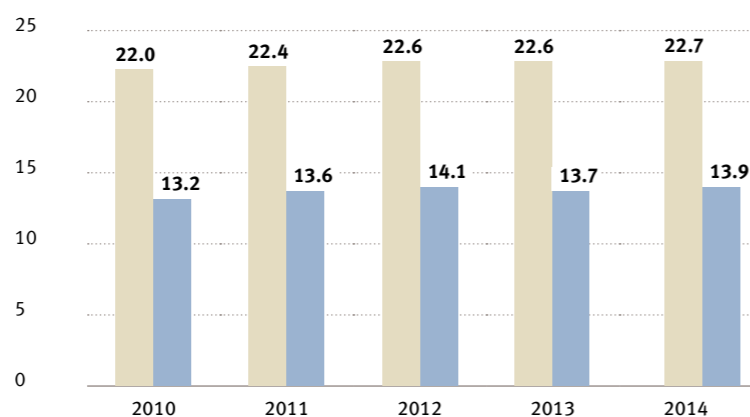
In 2014, production of pellets amounted to 22.7 million tonnes, 0.4% more than in 2013. Pellets produced by Metalloinvest contain up to 66.7% of iron, meeting the highest international quality standards of crude steel.

In 2014, the shipping volume of pellets to end consumers grew by 1.1% to 13.9 million tonnes.



Production and shipment of pellets in 2010–2014,
million tonnes

■ Production
■ Shipments



FOR MORE
INFORMATION ON
PELLET PLANT #3,
SEE P. 43

METALLOINVEST PLANS TO INCREASE ITS PELLET PRODUCTION CAPACITY:

In 2014, the Company finished the construction of Pellet Plant #3 at Mikhailovsky GOK, with the output capacity of 5 million tonnes of per year. Phased commissioning of the experimental industrial operation started in February 2015.

HBI/DRI

The increasing HBI/DRI production ensures Metalloinvest's market leadership. The Company increases HBI/DRI output supported by growing demand, high profitability of sales, and low competition in the commercial HBI market. In 2014, Metalloinvest produced 5.3 million tonnes of HBI/DRI, or 1.1% less than in 2013. The Company remains Russia's only HBI/DRI manufacturer.

The Company sells its HBI to external consumers. The high bulk density of HBI allows the Company to significantly reduce its transportation costs. In 2014, the Company shipped 2.3 million tonnes of HBI/DRI, 93% of which was HBI. In 2014, HBI shipments to end consumers made 100% of its production volume. In the reporting year, Metalloinvest retained its leading position in the global commercial HBI market.

The decline in the production and shipments of metallised raw materials in 2014 resulted from the scheduled capital repair and partial upgrade of HBI-2 Plant.

METALLOINVEST PLANS TO INCREASE ITS HBI PRODUCTION CAPACITY:

The Company continued the construction of HBI-3 Plant with the output of 1.8 million tonnes per year. Upon completion of construction the plant will become the largest HBI production unit in the world, and, following upgrades at HBI-2 Plant, Metalloinvest's total HBI/DRI production capacities will increase to 7.2 million tonnes per year.

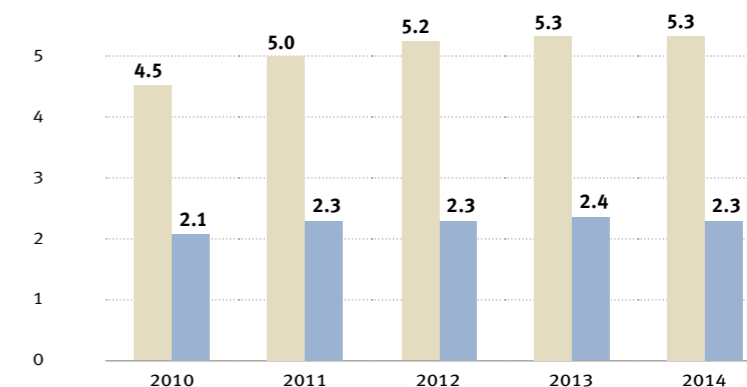


FOR MORE
DETAILED
INFORMATION
ON HBI-3 PLANT,
SEE P. 42



Production and shipment of HBI/DRI in 2010–2014,
million tonnes

■ Production
■ Shipments





Pig iron

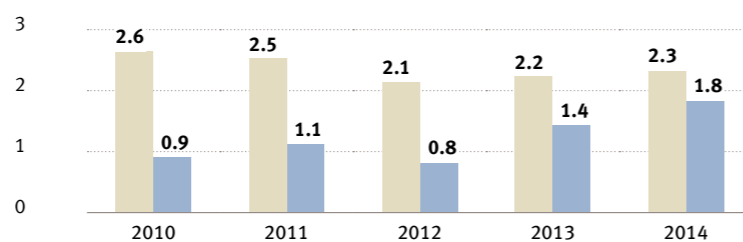
Modernisation of the pig iron production facilities at Ural Steel completed in 2014 allowed the Company to increase its pig iron production by 4.8% after a decline in 2009–2012.

Pig iron shipments in 2014 grew by 25.0%, to 1.8 million tonnes. The increase in shipments was due to the higher volumes of pig iron smelting (primarily, as a result of output increase at the blast-furnace shop), and the growth of sales to external consumers, a strategy that was the most economically reasonable under the existing market conditions.



Production and shipment of pig iron in 2010–2014, million tonnes

■ Production
■ Shipments



Steel

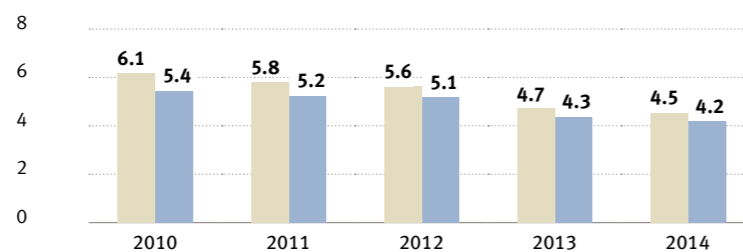
In 2014, the Company produced 4.5 million tonnes of steel. Its steel production declined 3.7% from 2013. The decrease of steel production between 2009 and 2014 was caused by plans of gradual retirement of the open-hearth steel making equipment at Ural Steel for the purpose of enhancing economic efficiency and environmental safety of the production process.

In 2014, shipments of steel products to the end consumers declined in proportion to crude steel production by 3.6% to 4.2 million tonnes. The main consumers of steel products are automotive, engineering, piping, construction, metal, and ball-bearing enterprises.



Production and shipment of steel in 2010–2014, million tonnes

■ Production
■ Shipments



LARGEST IMPLEMENTED PROJECTS

Metalloinvest's steel was used in the construction of Bugrinsky Bridge in Novosibirsk. Bugrinsky Bridge has the biggest arch span in Russia, it is 380 metres long and 80 metres high. It is supported by approximately 9 kilometres of steel cables. The total length of the bridge is over 2 kilometres. The first vehicles crossed the bridge in October 2014.

Metalloinvest took part in the implementation of a large transportation project in Siberia — a bridge over the River Vakh between the Tomsk Region and Yugra. The bridge connected Strezhnevoy and Nizheartovsk to become part of one of the main sections of a motorway in Western Siberia. The bridge is 1 kilometre long, the total weight of its spans is 7,000 tonnes. The throughput capacity of the bridge is 8,000 vehicles per day. The bridge was put into operation in November of 2014.

In September 2014, the Otkrytie Arena, the home stadium of Spartak Moscow football club, was commissioned. The stadium capacity is 45,000. The stadium is included in the list of host facilities for the 2018 World Cup. Rolled steel items for the new stadium were supplied by Ural Steel.

AS ESTIMATED BY THE COMPANY, IN 2014, METALLOINVEST'S MARKET SHARE IN KEY STEEL SEGMENTS WAS:

- 55–60% in bridge construction;
- 35–40% in ship building;
- 55–60% in construction steel;
- 35–40% in reservoir plants and chemical engineering plants segment.

IN 2015, THE COMPANY PLANS TO:

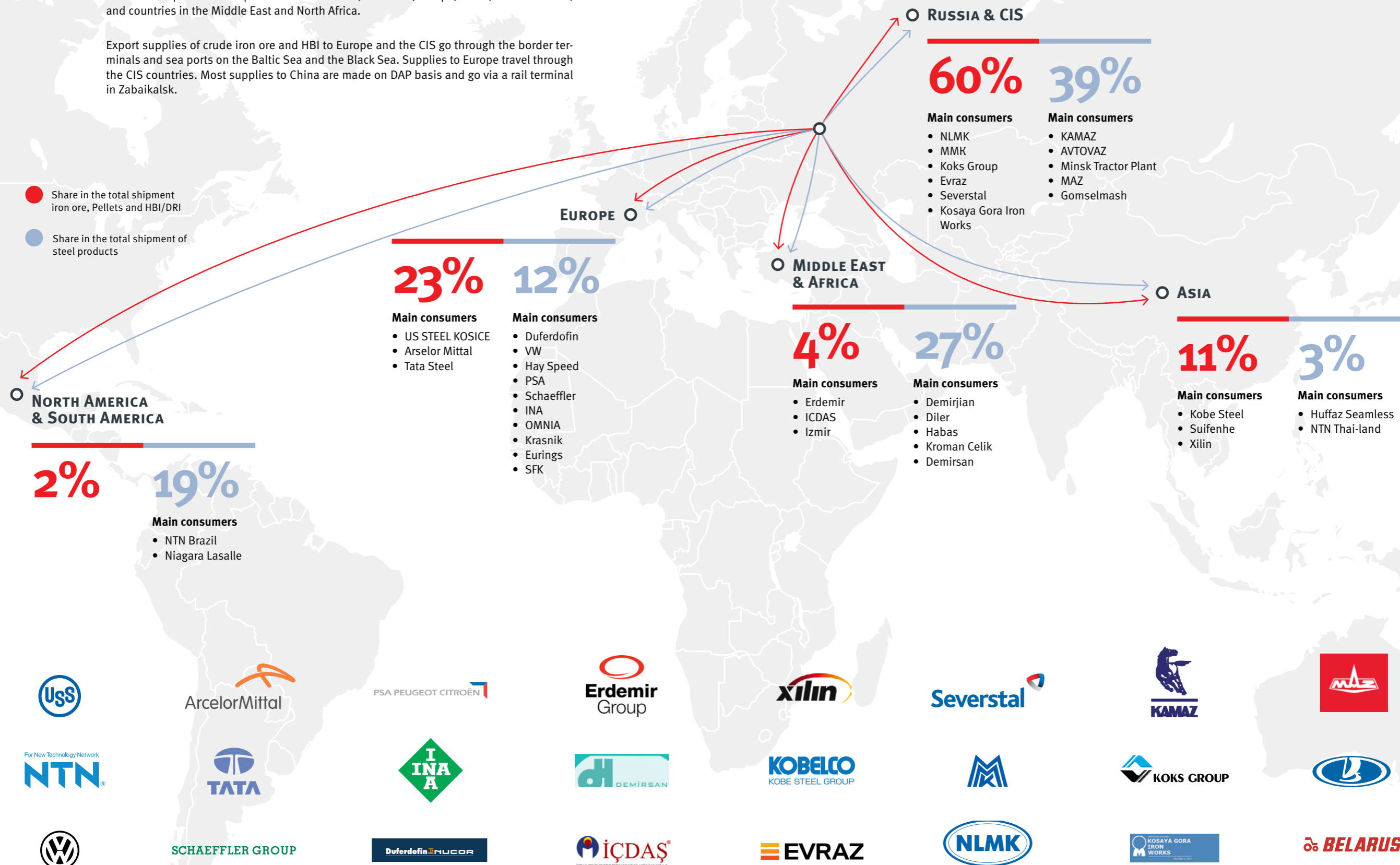
- increase the sales of bridge steel, and grow its market share to 65%;
- increase its market share in the ship building segment to 45–50% by growing sales at Ural Steel;
- increase its market share in the segments of rolled steel products for construction and reservoir plants to 65–70%.



3.3.1.2. Geography of Shipments

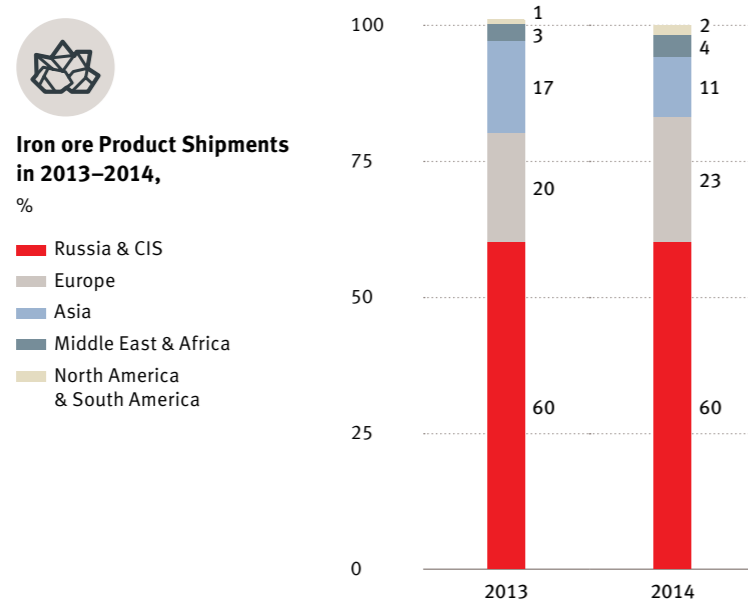
The Company aims at geographical diversification of its shipments to the end consumers. Metalloinvest ships its iron ore products within Russia, to the CIS, Europe, China, Southeast Asia, and countries in the Middle East and North Africa.

Export supplies of crude iron ore and HBI to Europe and the CIS go through the border terminals and sea ports on the Baltic Sea and the Black Sea. Supplies to Europe travel through the CIS countries. Most supplies to China are made on DAP basis and go via a rail terminal in Zabaikalsk.





Diversification of iron ore product shipments



Russia is a priority sales market for Metalloinvest. In 2014, Russia's share of iron ore product supplies remained unchanged from 2013 and stood at 16.2 million tonnes (59%). The large consumers in the domestic market include Novolipetsk Steel (NLMK), Magnitogorsk Iron & Steel Works, Severstal, Evraz, KOKS Group, Kosaya Gora Iron Works and others.

In 2014, the share of supplies to Europe increased to 23% (6.3 million tonnes) from 20% in 2013, primarily due to a considerable increase in shipments to U.S. Steel Kosice. Other large consumers in the regions are ArcelorMittal, Tata Steel, Arvedi and Ferriere Norde.

In 2014, the share of shipments of iron ore products to Asia slightly decreased from 2013 levels (from 8% to 5% for China, and from 9% to 6% for other Asian countries). It happened due to an increase in supplies to the European markets, which generated a higher margin for the Company (due to the shorter transport leg). Shipments to China amounted to 1.5 million tonnes, and shipments to other Asian countries, 1.6 million tonnes in 2014. Among the larger Asian consumers are Kobe Steel (Japan), and the Chinese enterprises of Xilin Group and others.

In 2014, the share of the Middle East and North Africa in the structure of shipments grew from 3% to 4% (0.7 and 1.1 million tonnes respectively) as a result of increasing the volumes shipped to Erdemir (Turkey), the largest consumer in the region.

Iron ore products and metal resources are shipped to Russian steelmaking plants via direct sales. Price calculation in most contracts is based on the iron ore price index Platts (62% Fe, CFR China).

The share of exports in the structure of shipments of pig iron and steel products in 2014 was 88% and 60% respectively. The key sales markets of the Company's Steel Segment are Western Europe, Turkey, Egypt, Saudi Arabia, CIS countries, North America.



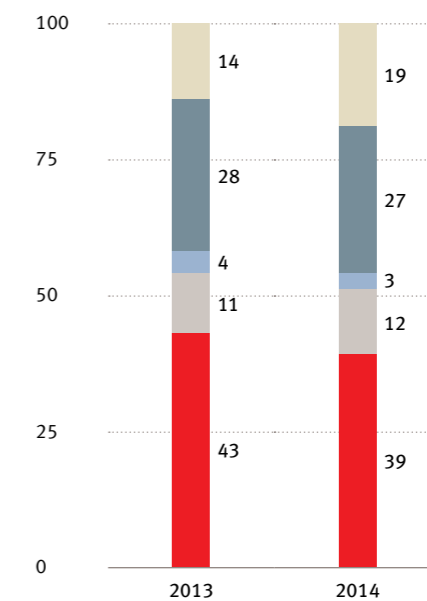
NAZIM EFENDIEV,
First Deputy CEO —
Commercial Director

“A balanced commercial policy, long-term and mutually beneficial relations with our key partners, possibility to quickly respond to changes in conditions in the foreign markets, and focus on products with high added value allow the Company to effectively meet the challenges of today, including the declining prices in the global markets and instability of macroeconomic situation”.



Metallised Product Shipments in 2013–2014, %

Region	2013	2014
Russia & CIS	43	39
Europe	11	12
Asia	4	3
Middle East & Africa	28	27
North America & South America	14	19



DEVELOPMENT OF LONG-TERM PARTNERSHIP WITH THE CUSTOMERS ALLOWS THE COMPANY TO MAINTAIN A HIGH LEVEL OF COMPETITIVENESS.



IN 2014, THE COMPANY CONCLUDED THE FOLLOWING LONG-TERM CONTRACTS:

April

Metalloinvest and KOKS Group signed a one-year iron ore concentrate supply contract. According to the contract, the total amount of iron ore concentrate supplies will exceed 1 million tonnes.

June

Metalloinvest signed a three-year pellet supply contract with Kosaya Gora Iron Works. According to the arrangements achieved by the companies, the total amount of supplies will make 1.9 million tonnes.

August

Metalloinvest and Ferriere Nord S.P.A., an Italian steelmaking plant (a company of Pittini Group), concluded a long-term hot-briquetted iron (HBI) supply contract.

December

Metalloinvest and Novolipetsk Steel (NLMK) extended the existing long-term pellets supply contract till December 31, 2015. According to the arrangements achieved by the companies, the total amount of supply will make 6.6 million tonnes of pellets. Earlier in 2011, Metalloinvest and NLMK signed a four-year pellet supply contract for the supply of about 21.6 million tonnes.

3.3.2. CERTIFICATION AUDITS

As part of ongoing implementation of its corporate management improvement strategy, Metalloinvest conducts work on the certification of its management systems, production processes and products, which is key to promotion of its products in the global markets and serves as a confirmation of their quality. The certification also demonstrates the Company's commitment to a responsible approach towards its employees (in terms of safe labour conditions) and shareholders (mitigation of risks of losses as a result of emergency situations).

In 2010, Metalloinvest's enterprises registered their primary products in conformity with the requirements of the European Regulation #1907/2006 (REACH), which enables Metalloinvest to supply its products to the EU countries.

IN 2014, LEBEDINSKY GOK SUCCESSFULLY PASSED:

- an inspection audit of its quality management system in order to comply with the requirements of the international standard ISO 9001:2008 (the audit was carried out by the British Certification Agency BSI Management Systems);
- an audit of the occupational health and industrial safety management system for compliance with the requirements of the international standard OHSAS 18001:2007 (the audit was carried out by the British Certification Agency BSI Management Systems);
- recertification of its environmental management system for compliance with the requirements of GOST R ISO 14001—2007 and MS ISO 14001:2004 (the audit was carried out by the specialists of the certification agency MCEAK LLC, Moscow). The Certificate obtained as a result thereof proves that the enterprise complies with all — Russian and international requirements. It also confirms that the activities of Lebedinsky GOK comply with the commitments assumed under the Company's environmental policy.

IN 2014, MIKHAILOVSKY GOK PASSED:

- control audits of its quality management system and the occupational health and industrial safety management system for compliance with the requirements of the international standards ISO 9001:2008 and OHSAS 18001:2007 based on the previously issued certificates;
- a re-certification audit of the environmental management system for compliance with the international standard ISO 14001:2004, with the issuance of a new certificate due to the expiry of the previous one.

IN 2014, URAL STEEL PASSED:

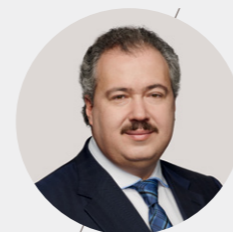
- the second supervisory audit of the QMS for compliance with requirements of ISO/TS 16949 in order to confirm the certificate issued by TUV NORD CERT GmbH (Essen, Germany);
- a re-certification audit of the existing environmental management system for compliance with the requirements of the international standard ISO 14001:2004;
- the first supervisory audit of the existing occupational health and industrial safety management system for compliance with the requirements of the international standard OHSAS 18001:2007;
- the second supervisory audit of the existing quality management system for compliance with the international and industrial standards ISO 9001:2008 and STO Gazprom 9001-2012.

In April 2014, OEMK successfully confirmed the compliance of the occupational health and industrial safety management system with the requirements of the international standard OHSAS 18001:2007.

4

CORPORATE
GOVERNANCE

“The Board of Directors takes a proactive position, both in forming a long-term strategy, and in material issues of operating activity and assessment of work efficiency of the top managers. Qualification and professional experience of the members of the Board of Directors allow us to successfully implement the Company's development strategy”.



IVAN STRESHINSKY,
Chairman of the Board
of Directors



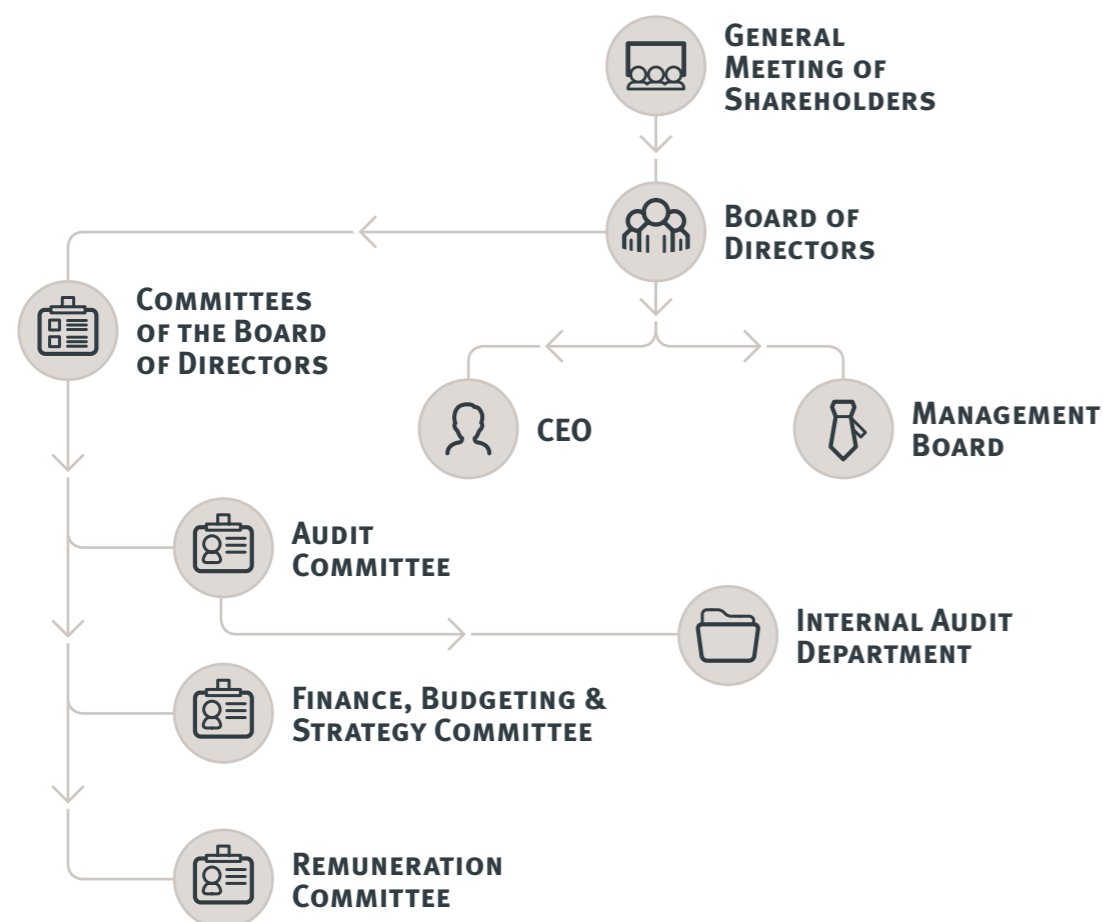


4.1 MANAGEMENT BODIES

METALLOINVEST IS CONSISTENTLY IMPROVING ITS CORPORATE GOVERNANCE SYSTEM AND IMPLEMENTING THE BEST WORLD PRACTICES OF CORPORATE GOVERNANCE, HIGHLY APPRECIATING THEIR IMPACT ON THE SUSTAINABLE DEVELOPMENT AND INCREASE OF THE COMPANY'S VALUE.

The Company sees corporate governance as a system of interaction between the Company's management bodies and third parties, which reflects the balance of interests of the parties and is aimed at enhancing the Company's performance efficiency.

/ METALLOINVEST GOVERNANCE STRUCTURE



4.2 BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic management of the Company. The key goals of the Board of Directors are to ensure efficient governance of the Company by its managers, define and realise the Company's strategic tasks, assess risks, and create favorable conditions for its sustainable development in the long-term prospect.

To improve its governance efficiency, the Company is guided by the key principles, i.e. the objectivity and independence of the Board of Directors. The independent and non-executive directors form the Board of Directors to ensure the control over the Company's top managers and prevent the conflict of interest. As of December 31, 2014 four of nine members of the Board of Directors were recognised independent.

THE ACTIVITY OF THE BOARD OF DIRECTORS IS REALISED THROUGH THREE COMMITTEES:

- Audit Committee;
- Finance, Budgeting & Strategy Committee;
- Remuneration Committee;

IN 2014, THE BOARD OF DIRECTORS HELD 11 FACE-TO-FACE AND 12 ABSENTEE MEETINGS, WHERE A NUMBER OF VERY IMPORTANT DECISIONS ON THE COMPANY'S BUSINESSES WERE MADE, LIKE:

- approval of Metalloinvest Development Strategy;
- approval of the Company's annual budget and annual programme of capital expenditures for 2014;
- formation of the Management Board of Management Company METALLOINVEST LLC;
- approval of a list of development programmes for KPI and remuneration systems for the employees of Metalloinvest enterprises, target performance indicators, operational and financial indicators, and core activity implementation schedules; a new annual remuneration system for the Management Staff was implemented.

In April 2014, Sergey Soldatenkov and Dmitriy Tarasov joined the Board of Directors. Mr. Soldatenkov has extensive experience in one of the leading telecommunication companies of Russia — MegaFon JSC. Engagement of Mr. Soldatenkov in the Remuneration Committee contributes to the improvement of Company's personnel development and motivation. Professional knowledge and managerial experience of Mr. Tarasov will contribute to further improvement of the operational efficiency.



NATALYA
CHUMACHENKO,
Non-executive
director

VADIM LEVIN,
Independent
non-executive
director

IVAN STRESHINSKY,
Chairman of the Board
of Directors

ANDREY VARICHEV,
Executive Director.
CEO of Management Company
METALLOINVEST LLC

VALERY KAZIKAEV,
Independent
non-executive
director

IRINA LUPICHEVA,
Non-executive director

SERGEY SOLDATENKOV,
Independent
non-executive director

DMITRY TARASOV,
Executive director

GALINA AGLYAMOVA,
Independent
non-executive director



MEMBERS OF THE BOARD OF DIRECTORS

Ivan Streshinsky

CHAIRMAN OF THE BOARD OF DIRECTORS.
MEMBER OF THE BOARD OF DIRECTORS SINCE FEBRUARY 2013.

Graduated with honours from the Aeromechanics and Flight Engineering Faculty of Moscow Institute of Physics and Technology.
 CEO of USM Advisors and Garsdale Services Investment, a member of the Board of Directors of USM Holdings Limited, Telecominvest, UTH Russia, MegaFon, Mail.ru, New Media Technologies Capital Partners and Kommersant Publishing House.

Galina Aglyamova

INDEPENDENT NON-EXECUTIVE DIRECTOR.
CHAIRMAN OF THE AUDIT COMMITTEE, A MEMBER OF THE REMUNERATION COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE OCTOBER 2013.

Graduated from Moscow Institute of Steels and Alloys, candidate of economic sciences. Vice President of NLMK till the end of 2012.

Valery Kazikaev

INDEPENDENT NON-EXECUTIVE DIRECTOR.
MEMBER OF THE FINANCE, BUDGETING & STRATEGY COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE OCTOBER 2013.

Graduated from Moscow Mining Institute, candidate of economic sciences. Advisor to CEO of Rosneft Overseas S.A. since March 2013.

Vadim Levin

INDEPENDENT NON-EXECUTIVE DIRECTOR.
MEMBER OF THE BOARD OF DIRECTORS SINCE OCTOBER 2011.

Graduated from Leningrad Institute of Finance and Economy, candidate of economic sciences. First Vice President of Eurofinance Mosnarbank.

Irina Lupicheva

NON-EXECUTIVE DIRECTOR.
MEMBER OF THE AUDIT COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE FEBRUARY 2013.

Graduated from the Faculty of International Economic Relations, Moscow State Institute of International Relations under the Ministry of Foreign Affairs of Russia; post-graduate study in Moscow Academy of Finance. Managing director and head of Control & Risks department in USM Advisors since May 2012.

Sergey Soldatenkov

INDEPENDENT NON-EXECUTIVE DIRECTOR.
CHAIRMAN OF THE REMUNERATION COMMITTEE, A MEMBER OF THE AUDIT COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE APRIL 2014.

Graduated from Leningrad Institute of Aviation Instrumentation and completed an MBA programme in Moscow Technical University of Communications and Informatics. Chairman of the Board of Directors of MegaFon since 2012.

Natalya Chumachenko

NON-EXECUTIVE DIRECTOR.
CHAIRMAN OF THE FINANCE, BUDGETING & STRATEGY COMMITTEE, A MEMBER OF THE REMUNERATION COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE OCTOBER 2013.

Graduated from Voronezh State Academy of Engineering and Construction, Voronezh State University. Master Trainer's Diploma of the International Training and Coaching Centre. First Deputy CEO of USM Advisors since July 2013.

Andrey Varichev

EXECUTIVE DIRECTOR.
CEO OF MANAGEMENT COMPANY METALLOINVEST LLC.
MEMBER OF THE FINANCE, BUDGETING & STRATEGY COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE APRIL 2007.

Graduated from Moscow Institute of Aviation Technology. CEO of Holding Company Metalloinvest since June 2009; CEO of Management Company Metalloinvest since October 2013.

Dmitry Tarasov

EXECUTIVE DIRECTOR.
MEMBER OF THE FINANCE, BUDGETING & STRATEGY COMMITTEE.
MEMBER OF THE BOARD OF DIRECTORS SINCE APRIL 2014.

Graduated from the Faculty of Metallurgy of Non-ferrous, Rare Metals and Alloys of Moscow Institute of Steel and Alloys, candidate of technical sciences. Executive Director of Metalloinvest CJSC since 2005; CEO of Ukrainian Mining and Steelmaking Company, since 2007.





COMMITTEES OF THE BOARD OF DIRECTORS



FOR MORE
INFORMATION ON
THE REMUNERATION
COMMITTEE'S
ACTIVITY IN 2014,
SEE P. 86

THE COMPANY'S BOARD OF DIRECTORS HAD THE AUDIT COMMITTEE AND THE FINANCE, BUDGETING & STRATEGY COMMITTEE UNTIL APRIL 2014. IN APRIL 2014, THE REMUNERATION COMMITTEE WAS ORGANISED. ITS MAIN GOALS ARE:

- ensure the conditions to attract and keep qualified personnel;
- ensure the enhancement of remuneration system efficiency, under which the size of employees' compensations depends on their contribution to the Company's activity.

The function of the committees is to preliminary examine the most important issues related to the competence of the Board of Directors, and prepare recommendations for making the relevant decisions.

REPORT OF THE AUDIT COMMITTEE

Members of the Committee: Galina Aglyamova (Chairman of the Committee), Irina Lupicheva, Sergey Soldatenkov.

COMMITTEE'S FUNCTIONS:

- actual governance of the Internal Audit Unit, including approval of the internal audit schedules for the year; consideration of remarks following the results of major audits in terms of internal control and response actions of the Company management following the results of such audits; assessment of efficiency of internal control procedures and preparation of proposals on their improvement;
- preparation of recommendations to the Board of Directors for the prevention, discovery, and limitation of financial and operational business risks;
- analysis of reports on the significant violations of established risk limits and on the sufficiency of measures suggested to eliminate such violations;
- control over the Company management's actions in terms of determination and management of new risk types;
- assessment of Company's financial reporting;
- assessment of candidates to external auditors, and recommendations on the sum of remuneration paid to the external auditor;
- assessment of external auditor's report;
- analysis and joint discussion with the auditor of the significant issues arising in the course of an independent external audit.



GALINA AGLYAMOVA,
Chairman of the Audit
Committee

“Consistent implementation of the best risk management practices together with the effective internal control and internal audit system are a basis for the Company's sustainable development”.

Committee Activity in 2014

IN 2014, THE AUDIT COMMITTEE HELD 15 FACE-TO-FACE AND 3 ABSENTEE MEETINGS, IN THE COURSE OF WHICH THE FOLLOWING KEY ISSUES WERE CONSIDERED:

- approval of consolidated statements executed in accordance with IFRS—for 2013 and interim statements for 3, 6 and 9 months of 2014;
- consideration of a complex risk management programme in the Company for 2015, including the risk appetite size;
- preparation of recommendations to improve the credit risk management system in the Company;
- consideration of an insurance programme in the Company for 2015;
- preparation of recommendations to improve cash management processes in the Company;
- the internal audit unit's report on the audits and violations discovered as a result thereof; proposals made by the management for elimination of violations.



NATALYA CHUMACHENKO,
Chairman of the Finance,
Budgeting & Strategy
Committee

“Application of the best world practices in the management of Company's enterprises, work focused on cost reduction to create long-term competitive advantages are a basis for the consistent development and implementation of the Company's strategy to support its leadership at the global markets, and a guarantee of its stable financial position”.

REPORT OF THE FINANCE, BUDGETING & STRATEGY COMMITTEE

Members of the Committee: Natalya Chumachenko (Chairman of the Committee), Andrey Varichev, Valery Kazikayev, Dmitry Tarasov.

COMMITTEE'S FUNCTIONS:

- formation of proposals on the Company's priority businesses;
- formation of proposals on the investment projects;
- formation of proposals on the settlement of a number of deals, namely: contracts of purchase and sale of shares (interest) in other companies (including derivative securities);
- formation of proposals on concluding contracts of purchase and sale and contracts of supply of steel and iron ore products and other goods, if the sum of a deal or of several related deals exceeds RUB 1.5 billion, not including the deals settled within the group;
- formation of proposals on concluding credit agreements, loan agreements, contracts of ensuring the fulfillment of obligations under credit agreements and loan agreements, bank deposit agreements, contracts of issuance of promissory notes and other funds raising instruments, if the sum of a deal or several related deals exceeds RUB 1 billion, not including the deals settled within the group;
- formation of proposals on the Company's dividend policy.

Committee Activity in 2014

In 2014, the Committee held 19 face-to-face and 18 absentee meetings.

IN 2014, AS PART OF ITS CORE FUNCTIONS, THE COMMITTEE CONDUCTED METHODOLOGICAL GUIDANCE AND MADE RECOMMENDATIONS ON THE DEVELOPMENT OF:

- Metalloinvest Development Strategy;
- Company's annual budget and annual programme of capital expenditures for 2014 and 2015;
- Programmes for KPI and personnel development systems of Metalloinvest enterprises, target performance indicators, operational and financial indicators of the financial and economic activity.

Moreover, in 2014 the Committee formed recommendations and proposals for the Board of Directors on entering into the contracts of purchase and sale of shares (interest), contracts of purchase and sale and contracts of supply of steel and iron ore products, credit agreements and contracts ensuring the fulfillment of obligations under them, loan agreements.



SERGEY SOLDATENKOV,
Chairman of the
Remuneration Committee

“An efficient system of personnel motivation and fair assessment of contribution made by each manager to the achievement of goals favours the creation of the conditions to reveal and realise the potential of each employee. It is an important part of Company's success in the long-term prospect”.

REPORT OF THE REMUNERATION COMMITTEE

Members of the Committee: Sergey Soldatenkov (Chairman of the Committee), Galina Aglyamova, Natalya Chumachenko.

COMMITTEE'S FUNCTIONS:

- formation of proposals on the Company's remuneration policy for the members of the Board of Directors, CEO, members of the Management Board to be approved by the Board of Directors.
- formation of proposals on the personnel development and motivation;
- formation of HR and social policy;
- formation of the Company's resource planning principles.

Committee Activity in 2014

In 2014, the Remuneration Committee held 6 face-to-face meetings and 1 meeting in the form of absentee voting.

IN 2014, AS PART OF ITS CORE FUNCTIONS, THE COMMITTEE CONDUCTED METHODICAL GUIDANCE AND MADE RECOMMENDATIONS ON THE DEVELOPMENT OF:

- KPI system for the Company's key managers and enterprises under control, system of annual and long-term remuneration for key managers, approaches towards the formation of a remuneration system for the employees of Metalloinvest;
- the calculating methodology for reprocessing labour efficiency indicators at the Metalloinvest enterprises;
- social programmes system in 2015, principles of HR cost budget formation for 2015.

In 2014, the Remuneration Committee supported implementation of a project of grades system development and implementation in the Management Company and at one of the companies under control (Mikhailovsky GOK) in order to enhance personnel management efficiency in accordance with the best international experience.

4.3 MANAGEMENT BOARD

The Management Board is a collective executive body of the Company. The Management Board was formed on March 7, 2014. The purpose of its establishment is to continue improvement of corporate governance and increase attention to the operating activity. The Management Board includes Managing Directors of Lebedinsky GOK, Mikhailovsky GOK, OEMK, and Ural Steel, which facilitates the most effective ways for the Company's general development.

The competence of the Management Board includes resolution of the most important issues of Company's regular activities, coordination of work of the services and units of the management company; delivery of proposals to the Board of Directors on the core businesses and prospect plans of their implementation.

In 2014, the Management Board held 8 face-to-face meetings and 7 absentee meetings.





MEMBERS OF THE MANAGEMENT BOARD



ANDREY VARICHEV,
CEO of Management Company
METALLOINVEST LLC

Member of the Board of Directors
since April 2007.



FOR MORE DETAILED INFORMATION ON
CEO, SEE P. 81



ANDREY UGAROV,
First Deputy CEO — Production
Director

Graduated from Lipetsk Polytechnical
Institute.

Works in the Company since 1999.
Since 2004 occupies executive
positions in the Company and its
production enterprises. OEMK Mana-
ging Director from 2004 to 2011.
Holds the current position since
December 2013.



NAZIM EFENDIYEV,
First Deputy CEO — Commercial
Director

Graduated from the Military Institute
of Foreign Languages, completed an
MBA programme in the Academy of
National Economy, and an Interna-
tional Management programme in
Kingston University.

Since 2002 occupies executive posi-
tions in the Company and its produc-
tion enterprises. Holds the current
position since March 2012.



PAVEL MITROFANOV,
Deputy CEO — Chief Financial Officer

Graduated from the Economy Faculty
of Lomonosov State University of Mos-
cow, master's degree programme in
the Accounting, Analysis, and Audit,
and received an MBA degree in the
business school of Imperial College
London.

Works in the Company since 2004.
Since 2008 occupies executive posi-
tions. Holds the current position since
April 2010.



YURY NADEEV,
Deputy CEO for Security

Graduated from Moscow Institute of
Law, candidate of legal sciences.

Since 2009 occupies executive posi-
tions in the Company. Holds the cur-
rent position since March 2010.



MARINA NOVIKOVA,
Deputy CEO for Organisational
Development and Management of
Personnel

Graduated from Maurice Thorez
Moscow State Pedagogical Institute of
Foreign Languages. In 2015 received
a business administration certificate
of INSEAD school.

Since 2013 occupies executive posi-
tions in the Company. Holds the cur-
rent position since November 2013.



SERGEY SHUVALOV,
Deputy CEO for Corporate Issues (till
February 2015)

Graduated from Novosibirsk Higher
Military and Political College and
the Faculty of International Law of
Moscow State Institute of Interna-
tional Relations under the Ministry of
Foreign Affairs of the Russian Federa-
tion.

Since 2006 occupies executive posi-
tions in the Company. Deputy CEO for
Corporate Issues from April 2008 to
February 2015.



YURY GAVRILOV,
Strategy & Development Director

Graduated from the Aeromechan-
ics and Flight Engineering Faculty
of Moscow Institute of Physics and
Technology. In 1999 graduated from
the master's degree programme of the
Institute of Business and Economy,
Academy of National Economy,
with the specialisation in Finances.
In 1999 received an MBA degree in
the business school of California Uni-
versity, the Business administration
finance option programme.

Holds the current position since
May 2014.



OLEG MIKHAILOV,
Managing Director of
Lebedinsky GOK JSC

Graduated from Leningrad Mining
Institute.

Since 2006 occupies executive posi-
tions in the Company and its produc-
tion enterprises. Holds the current
position since October 2011.



SERGEY KRETOV,
Managing Director of
Mikhailovsky GOK JSC

Graduated from the Patrice Lumumba
People's Friendship University.

Since 1998 occupies executive posi-
tions in the Company and its produc-
tion enterprises. Holds the current
position since July 2006.



NIKOLAY SHLIAKHOV,
Managing Director of OEMK JSC

Graduated from Lipetsk Politechnical
Institute.

Since 1999 occupies executive posi-
tions in the Company and its produc-
tion enterprises. Holds the current
position since April 2011.



YEVGENY MASLOV,
Managing Director of Ural Steel JSC

Graduated from Cherepovetsky State
University.

Since 2007 occupies executive posi-
tions in the Company and its produc-
tion enterprises. Holds the current
position since April 2014.



4.4 INTERNAL CONTROL AND AUDIT SYSTEM

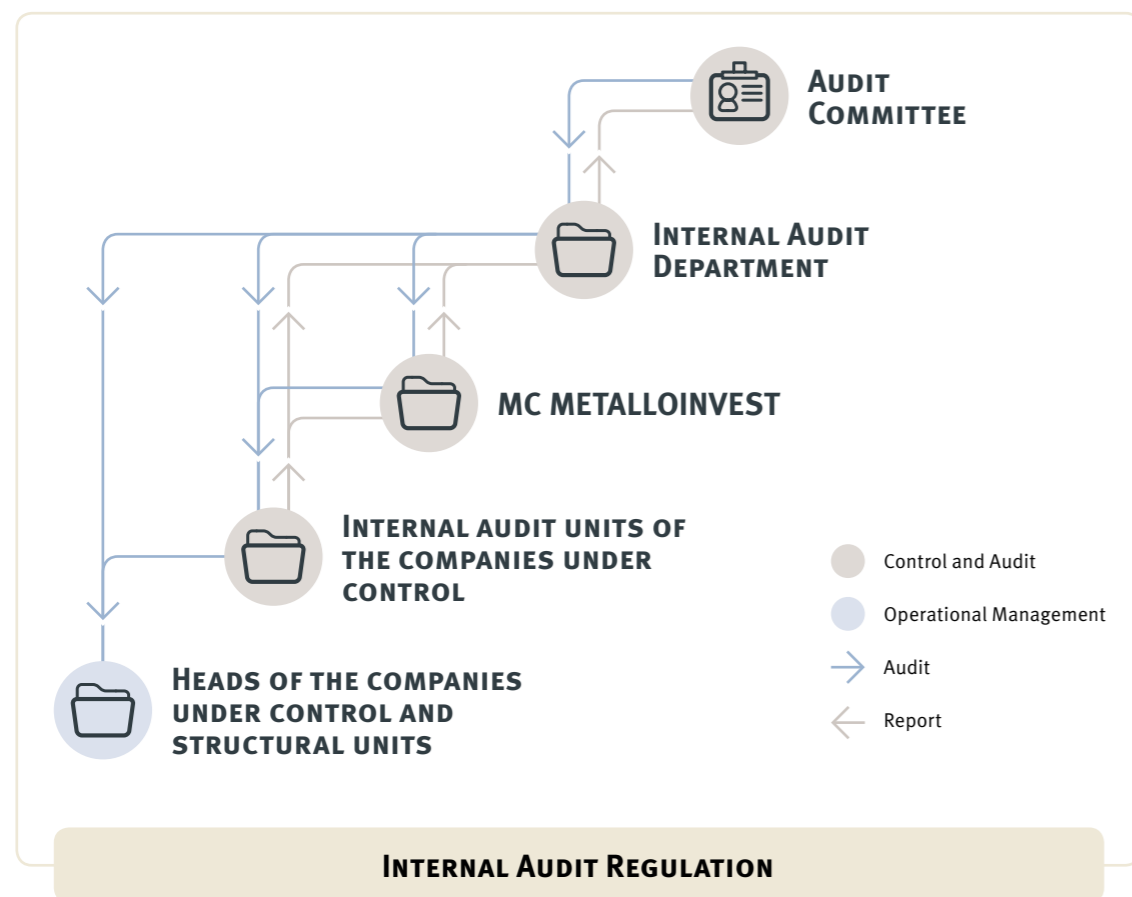
THE INTERNAL CONTROL SYSTEM CREATED IN THE COMPANY IS FOCUSED ON:

- revealing and assessing risks, recommendations for mitigating their adverse impact on the Company's activity;
- implementing and improving the internal control procedures.

This activity is a part of responsibility of Company's functional businesses managers and directors of its organisations. Independent evaluation of efficiency of internal control procedures and elaboration of recommendations to improve the internal control system is an important element of the internal control system. This activity is a part of responsibility of internal audit.

A corporate risk management system is always the point of attention of the Board of Directors, which does its best to make this system comply with the best world practices and operate effectively.

/ METALLOINVEST INTERNAL CONTROL AND AUDIT SYSTEM



Metalloinvest's Board of Directors treats internal control and audit as the most important mechanism to ensure the Company's sustainable development. The experience of Galina Aglyamova, Chairman of the Audit Committee, and competence of Vladimir Manuilov, Director of Internal Audit Department of Management Company Metalloinvest, who also has an international certificate of CIA (Certified Internal Auditor), helps to achieve this goal.

The structure of internal audit system covers all levels of governance and consists of the Audit Committee of the Board of Directors of Management Company Metalloinvest, Internal Audit Department of Management Company Metalloinvest, and internal audit units of the companies under control.

The structure is established by the Internal Audit Regulation, and ensures the implementation of independence and objectivity principles (head of the Audit Committee of the Board of Directors is an independent director). The internal audit units of the companies under control are functionally subordinated to Director of the Internal Audit Department, which in its turn reports to the Audit Committee.

HEADS OF COMPANIES UNDER CONTROL AND STRUCTURAL UNITS ARE IN CHARGE OF EFFICIENT ARRANGEMENT OF CONTROL AND MANAGEMENT OF RISKS AND CORPORATE GOVERNANCE PROCESSES IN THE UNITS THEY MANAGE. THE SAID PROCESSES ARE ASSESSED IN TERMS OF HOW THEY ENSURE:

- the efficiency of the Company's financial and economic activity;
- the safety of Company's assets from illegal actions of employees and third parties;
- the compliance of the activities with the internal regulations, laws and contractual obligations of the Company;
- the adequacy of the Company's financial and economic activities in the managerial and financial reporting.

Description of substantial risks discovered and the corresponding proposals on mitigating their adverse impact are delivered to different governance levels in accordance with the approved reporting system. Following the assessment results, the Company develops recommendations to improve the said processes and monitors the fulfillment of such recommendations.

The Audit Committee studies twice a year a consolidated internal audit report with the information on completed audits, discoveries and measures taken by the management to fulfill recommendations of internal audit. The most significant issues mentioned in the reports are discussed by the Audit Committee at the regular and extraordinary meetings.

To determine the priority lines of audits the Company uses a risk-oriented approach, which considers the Company's targets, proposals from the senior executive management and the Board of Directors.

IN 2014, INTERNAL AUDIT COVERED THE MOST SUFFICIENT RISKS IN THE FOLLOWING FIELDS:

- management of investment projects;
- repair and maintenance of property, plant and equipment;
- material flow control;
- logistics;
- purchase of commodities and supplies.



EXTERNAL AUDIT

Metalloinvest prepares its financial statements in accordance with the Russian and international standards (IFRS and RAS). Since 2010 the Company has been engaging an external auditor to conduct an independent audit of financial and accounting statements. In 2014, the auditor of the Company's financial statements prepared in accordance with IFRS and accounting statements prepared in accordance with RAS was PriceWaterhouseCoopers.

The auditor is selected based on screening the candidates following the results of negotiations, with due consideration of their professional level and cost of services. The auditor is approved by the Company's General Meeting of Shareholders (Participants).

4.5 RISK MANAGEMENT SYSTEM

The business of Metalloinvest is associated with various risks. Metalloinvest has arranged a multi-level risk management system to identify, classify, assess possible consequences and to elaborate effective managerial decisions. This system provides for the risk management at the level of the Board of Directors and at the level of functional executives of production enterprises and structural units.

Individual and complex risks that have been duly identified are classified and ranged proceeding from their sufficiency, probability, duration and possible damage, and are subject to control in the course of Company's operational and strategic activities.

The Company conducts risk management through the implementation of a programme consisting of a scope of risk prevention activities, which are taken to reduce the probability of their occurrence, and a scope of risk consequences minimisation activities, which is aimed to reduce damage upon their occurrence.

WITHIN THE FRAMES OF RISK MANAGEMENT THE COMPANY SINGLES OUT THE FOLLOWING MAIN GROUPS OF RISKS:

- macroeconomic;
- production;
- financial;
- investment;
- market;
- other.



RISK	DESCRIPTION	MINIMISATION FACTORS
MACROECONOMIC RISKS		
Impact of global cycles of economic activity	<p>Metalloinvest supplies products primarily for the steel industry, the demand for which depends on the level of global economic activity. On the other hand, mining and smelting industry implies a capital-intensive production process requiring considerable investments. Sensitivity to industrial production paces and demand for considerable investments are the major risk factors that may negatively affect the Company's financial indicators and growth opportunities.</p> <p>At the moment the Company goes through the cyclical recession in the mining and smelting industry caused by the outrunning growth of supply due to a considerable volume of investments into the industry after the world financial recession, which resulted in the surplus of supply and slump in prices.</p>	<p>Metalloinvest carefully studies the changes in the global environment and implements a flexible commercial policy, balanced policy to raise and utilise the funds, with a focus on the Company's internal development, maintenance of long-term partnership with the key consumers.</p>
Risk of cost escalation for products manufacture and sale	<p>The risk is associated with the measures of state regulation, political and economic conditions. Company's property, plant and equipment are located in the Russian Federation. Measures of economic and political pressure imposed on Russia by a number of Western countries due to the position of the Russia's political leaders in a number of foreign policy issues negatively affect the economic situation. In particular, economy growth changed for stagflation. Inflation rate increased from 6.5% following the results of 2013 to 11.4% as of the end of 2014. Moreover, ruble went through abrupt devaluation against the main world currencies, which caused the increase of expenses for foreign goods and services. Metalloinvest expects a considerable growth of prices for raw materials, materials and services in the nearest future.</p>	<p>Metalloinvest develops and implements the activities aimed at reducing costs, improving the technologies and optimising commodity flows, inter alia, by means of import replacement.</p>
Risk of price increase for energy resources	<p>Electricity and natural gas are the main energy resources the Company purchases from external manufacturers. Prices for energy resources are regulated by the state, and the prices for some of their positions already exceed the prices in some key regions of the world. It leads to the increased net cost of production and deterioration of Company's competitiveness at the world market.</p>	<p>Metalloinvest concludes direct long-term contracts for supply of natural gas and electricity with Gazprom JSC and FGC UES JSC, and considers a possibility to develop its own generating capacities.</p>



RISK	DESCRIPTION	MINIMISATION FACTORS
Risk of transport expenses increase	A railway tariff consists of the infrastructural, locomotive and rail car components. The first two tariff components are regulated by the state. Till 2017 the growth of railway tariffs by 4.5–10% will cause the cost increase of ready products transportation and, as a result thereof, reduction of business profitability. On the other hand, a considerable surplus of rail cars and vessels led to decrease in the rental rates, and their considerable growth is not expected in the mid-term prospect.	Metalloinvest concludes long-term contracts with the most effective transport and shipping companies and optimises the process of products delivery to the consumer with the minimum costs.
PRODUCTION RISKS		
Risk of production process failure and accidents	Mining and steelmaking productions are highly hazardous productions. An accident in the course of production implies downtime and increase in non-productive expenses. The Company accounts risks at all production levels, from mining and concentrate production to the output of high-quality rolled steel items.	<p>Metalloinvest conducts complex assessment of the influence of various risk factors on the production processes and reduction of product output.</p> <p>Metalloinvest applies complex industrial, production and environmental safety measures to prevent accidents.</p> <p>To maintain the satisfactory condition of production equipment, Metalloinvest conducts centralised work on planning, arrangement and performance of repair works, which is interrelated with the general programme of capital costs spent on technical re-equipment and production safety assurance.</p> <p>The Company also insures its risks of production shutdown, following the generally accepted industrial practice. The insurance programme covering the Company's production assets is represented by re-insurance companies with the A rating and by the leading insurance company with the AAA- rating.</p>



RISK	DESCRIPTION	MINIMISATION FACTORS
FINANCIAL RISKS		
Currency risk	Currency risk is defined as a risk of financial losses as a result of unfavorable changes in the currency rates. The main source of such risk for Metalloinvest is its export activity. However, prices under some internal contracts also depend on the currency rates fluctuations, in spite of being denominated in rubles. In 2014, as a result of the existing geopolitical and economic situation, the exchange rate of USD to the national currency in the country increased from RUB 33-34/USD 1 in the beginning to RUB 56-57/USD 1 in the end of the year.	The Company conducts continuous monitoring of the possibilities for fixation (hedging) of currency risks. Some of occurring risks are covered by the credit portfolio of Metalloinvest with the balanced distribution of ruble and currency loans, which takes into consideration the Company's export activity and equipment purchase abroad.
Interest risk	Metalloinvest is actively raising cash funds at the capital markets and in the form of bank loans. The cost of financing is determined by market conditions, changes in which may result in the increase in price for the processing of financial liabilities. Interest risk is defined as a risk of growth in the floating interest rates. Metalloinvest's credit portfolio is partially formed by loans with LIBOR and EURIBOR rates. Besides, there is a risk of loans refinancing at higher rates than the existing ones.	<p>The loans with floating rates make less than a third part of the credit portfolio of Metalloinvest. Metalloinvest conducts continuous monitoring of the possibilities for fixation (hedging) of currency risks.</p> <p>The Company reduces the refinancing risk due to preventive refinancing of loans on the beneficial conditions and prolongation of an average term of portfolio.</p>
Credit risk	Credit risk is defined as a risk of contractor's default on its obligations to Metalloinvest. Such risk occurs when selling goods with deferred payment, purchasing goods/services with advance settlements, in the course of settlements with the banks, and in the course of other operations where the contractor incurs an obligation to Metalloinvest.	Metalloinvest has implemented a system of contractors' credit quality analysis, limitation of risk exposure, and calculation of total credit risk. The Company uses bank guarantees, non-recourse factoring and other instruments mitigating credit risk.
Risks associated with the fulfillment of terms and conditions of credit agreements	Creditors of Metalloinvest file a number of claims to the company and impose certain restrictions on the company's activities through the credit and other similar agreements. A failure to fulfill these conditions may result in a claim for immediate repayment of borrowed funds under the violated agreements and under all credit agreements in the portfolio.	Metalloinvest has created a system of preventive control over the fulfillment of obligations under credit agreements, and tests the fulfillment of creditors' demands on a regular basis.



RISK	DESCRIPTION	MINIMISATION FACTORS
INVESTMENT RISKS		
Risk of value increase and delay of the investment projects implementation	Implementation of investment projects in the mining sector is associated with the risk of increase in their value and terms of commissioning of primary and auxiliary equipment due to their extent, use of imported components and a significant part of project implementation participants.	The Company thoroughly plans and controls the implementation of investment projects, actively works with the suppliers and contractors to minimise the estimated value, insures its losses associated with the extension in the terms of facility commissioning or completion of construction and assembly works (ALoP). The Company thoroughly plans and controls the implementation of investment projects, actively works with the suppliers and contractors to minimise the estimated value, insures its losses associated with the extension in the terms of facility commissioning or completion of construction and assembly works (ALoP).



MARKET RISKS		
Risk of product sales decrease caused by the slowdown in the China's economic growth pace	<p>China's economic development produces a significant impact on the global demand for crude iron ore and metals.</p> <p>China's share in the world GDP, with consideration for the balance in purchasing power, makes 17%, while China produces 49% of rolled steel items of the world and consumes 58% of crude iron ore. Following the results of 2014 China's real GDP increased by 7.4%. According to the forecasts, GDP reduction of the country is expected in the mid-term prospect alongside with the transformation of the economic development model towards the increase in the share of service sector. China's government is implementing the measures to support the growth pace of its economy. In particular, the Bank of China is gradually decreasing its refinancing rate, reducing bank reserve requirements and other supporting measures.</p>	The Company diversifies its sales markets and minimises its dependence on Chinese consumers; furthermore, it develops the production of highly demanded products with the added value, primarily HBI. Metalloinvest develops relations with its customers, thus increasing the share of strategic long-term contracts in the sales portfolio.
Risk of prices decrease for Metalloinvest products characterised by sufficient volatility	In 2014, the prices for crude iron ore decreased half as much, for metallised products—by 20–25%, for rolled steel—by 15–20%.	Metalloinvest is focused on the production of high-quality products with the added value, investing in the extension of production of high-margin products, cost reduction and diversification of sales

OTHER RISKS:

- legal risks—Metalloinvest intensifies the functions of internal control and audit to minimise the possibility to violate the laws, and consistently implements transparency and high ethics policy in the business environment to avoid violations in the commercial turnover;
- risks of the capital outflow to other assets of Metalloinvest—the Company conducts a comprehensive work on optimising the ownership structure of subsidiaries and affiliates, improving their self-sufficiency and efficiency.



SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

“We recognise that the Company cannot develop in a sustainable manner unless it takes into consideration external economic, environmental and social factors. Ongoing dialogue with our stakeholders, an understanding of their expectations and a focus on creativity and partnership are the fundamentals of our approach to responsible business management”.



ANDREY VARICHEV,
CEO Management Company
METALLOINVEST LLC





5.1 INTERACTION WITH STAKEHOLDERS

SOCIAL RESPONSIBILITY IS A PART OF A SUSTAINABLE DEVELOPMENT APPROACH AND A FOUNDATION OF METALLOINVEST’S LONG-TERM POLICIES AND ITS APPROACH TO THE IMPLEMENTATION OF BUSINESS TASKS AND INTERACTION WITH ITS STAKEHOLDERS. THE COMPANY’S POLICIES ARE AS FOLLOWS:

- unwavering compliance with the law and with ethical standards;
- the ongoing improvement of the Company’s product quality;
- a reasonable balance between the Company’s business interests and those of its stakeholders (shareholders, investors, employees, consumers and suppliers, governmental authorities, etc.);
- relationships with stakeholders that are based on partnership, dialogue, openness, and accountability;
- the concentration of the Company’s efforts on areas where its impact is the most significant and where it can contribute to sustainable development;
- the ongoing improvement of management and practices using the best available experience and technology.



For more information on the principles of responsible business management, see the Sustainability section on the Company’s website: <http://www.metalloinvest.com/en/association/policies-and-approaches/>

The key areas, principles and strategic actions through which the Company looks to improve its activities in economic, social and environmental fields are detailed in the Memorandum of Corporate Social Responsibility.



The Company issues a Report on Corporate Social Responsibility at least once every two years to disclose the economic, social and environmental results of its operations to its stakeholders: <http://www.metalloinvest.com/en/sustainability/csr-reports/>

OUR APPROACHES TO INTERACTION WITH KEY COMPANY STAKEHOLDERS



EMPLOYEES	How we interact	We formalise labour relations with the employees, in compliance with the labour code We organise regular occupational safety training and offer courses for employees to improve their qualifications We sign collective bargaining agreements to ensure that current employees, their families, and retired employees receive social support We monitor employee engagement
	What our employees expect	Job safety and safe working conditions Fair remuneration Opportunity for professional and career development Access to social programmes
	How we respond to expectations	We pay fair remuneration, above the average wage in the regions where we operate We invest in production to create new jobs and in occupational health and safety measures to ensure safe working conditions We provide education, training and re-training We offer social support programmes to our current employees, their families and retired employees



TRADE UNIONS	How we interact	We cooperate in the development of the industry tariff agreement We cooperate in the development of key provisions of collective bargaining agreements and monitor how they are being enacted We hold regular workers’ meetings and consultations in order to prevent trade disputes
	What trade unions expect	Fair remuneration for their members Job security and safe working conditions The development of social programmes for our current employees, their families and retired employees
	How we respond to expectations	We pay fair remuneration, above the average wage in the regions where we operate We cooperate with the trade unions on key local regulation that affects the interests of their members We invest in production to create new jobs We coordinate the work of authorised trade union representatives in regards to occupational health and safety issues We offer additional social support programmes to our current employees, their families and retired employees



OUR APPROACHES TO INTERACTION WITH KEY COMPANY STAKEHOLDERS



INVESTORS

How we interact

We publish reports on the Company's performance

We participate in briefings and presentations

We hold one-on-one investor meetings

We organise investor visits to the Company's facilities

What investors expect

Open and transparent information

Continued improvement in the Company's investment prospects

The continued increase in the Company's shareholder value

How we respond to expectations

We ensure the timely and complete disclosure of information in our quarterly reports

We interact with ratings agencies for assessment of the Company's credit-worthiness

We invest capital in projects and manage costs to increase the Company's operational efficiency and the Company's value



CONSUMERS

How we interact

We meet with customers, participate in conferences, and meet with industry associations

What consumers expect

Consistency in our product quality

Competitive pricing

Reliable and timely product shipments

How we respond to expectations

We enter into long-term contracts

We ensure the efficient operation of our logistics services

We ensure the reliable operation of our key production units

We continue to modernise our equipment and our technological capabilities



AUTHORITIES

How we interact

We hold regular meetings with heads of regions and towns in the areas where we operate

We enter into social and economic partnership agreements

What regional and municipal authorities expect

Consistent levels of employment

A reduction in our environmental footprint

Social programmes in the regions where we operate

Investment in the regions where we operate

How we respond to expectations

We invest in projects that protect the environment

We invest in new projects that expand production and create new jobs

We develop and implement social investment programmes in the regions where we operate

OUR APPROACHES TO INTERACTION WITH KEY COMPANY STAKEHOLDERS



LOCAL COMMUNITIES

How we interact

We hold regular meetings with representatives of local communities

What local communities expect

That the Company considers the interests of local communities as it conducts business

The Company's participation in resolving issues that face local communities

How we respond to expectations

We implement corporate charity programmes and joint projects to benefit local communities

We support social activities in the regions where we operate

We examine and apply national and international best practices in our relationships with local communities

The support of the Company's employees is an important aspect of Metalloinvest's social policy. A key tool in supporting this policy is the employer-employee Collective Bargaining Agreement that guarantees employees' rights to safe working conditions, holiday, health resort treatment and rehabilitation, compensation for work related injuries, hardship support, and other benefits. In 2013, new collective bargaining agreements were signed for 2014–2016 at all Company's enterprises.

THE PRIORITIES OF THE COMPANY'S SOCIAL PROGRAMMES ARE:

- healthcare and wellness of employees and their children;
- support for families and parents;
- support for retired employees.

In 2014, the Company assigned a budget of USD 30.54¹ million to its three main social support programmes. This figure included expenses for maintaining healthcare services for employees.

In 2014, the Company led charity and social investment programmes worth USD 19.75 million in order to contribute to the development of the regions where it operates.

The Company is particularly dedicated to the development of the towns where its production facilities are located — Stary Oskol and Gubkin in the Belgorod Region, Zheleznogorsk in the Kursk Region, and Novotroitsk in the Orenburg Region.

The Company cooperates with local authorities to make the towns where steelworkers and miners live more comfortable and more exciting for young people. The Company collaborates with the town and regional authorities to initiate and implement programmes aimed at introducing the reforms and developing the potential of the towns as a whole, as well as improving individual aspects of the community.

¹ In this section, the amounts have been converted to USD at the exchange rate of RUB 37.6248 for 1 USD.



THE COMPANY PRIORITY AREAS IN ITS CHARITY AND SOCIAL INVESTMENT PROGRAMMES ARE:

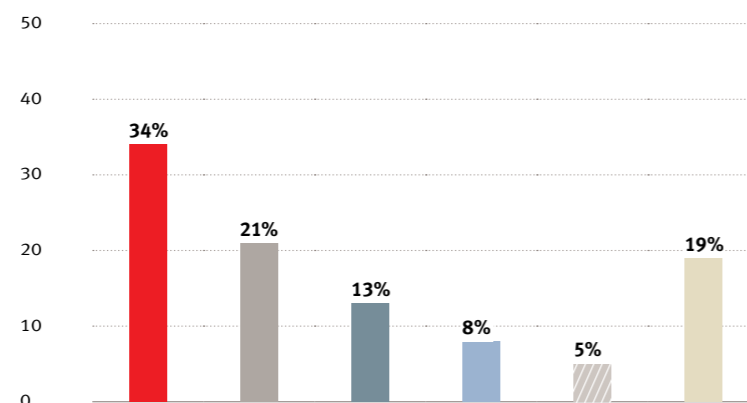
- creating a comfortable social and cultural environment through the development of physical infrastructure and initiatives that improve quality of life and social services;
- supporting local education;
- improving the quality of health services;
- developing sporting facilities and promoting sport among children;
- supporting vulnerable groups within local populations;
- promoting entrepreneurship as a means of strengthening of the services sector, creating new jobs and supporting the local economies in the towns where the Company operates.



Priority Areas of Social Investment and Charity in Towns in 2014,

% of total expenses

- Healthy living and sport, including children's sport
- Education
- Culture and art
- Support of vulnerable groups within local populations
- Healthcare
- Other (including the road development)



INSERTS



Metalloinvest awarded second place in the “Leaders of Corporate Charity 2014” contest

Metalloinvest was named second among all contestants in the VII Annual national “Leaders of Corporate Charity 2014” contest. The Company was also ranked first in the Mining & Steel Industry category.

Metalloinvest enterprises received prizes for their social impact

In 2014, Metalloinvest's Lebedinsky GOK and OEMK were named among the winners and runners-up of a regional stage of the Russian Organisations with highly-effective CSR national competition. Lebedinsky GOK won the Production Companies Encouraging a Healthy Lifestyle category, while OEMK won the Contribution to the Resolution of Social Problems and the Development of Corporate Philanthropy category. OEMK and Lebedinsky GOK took second and third place respectively in the Developing Employee Potential in Production Organisations category.

Metalloinvest won two awards at the PEOPLE INVESTOR 2014 contest

Metalloinvest was among the winners in the PEOPLE INVESTOR 2014 corporate competition. The Company was awarded prizes in the Developing Local Communities and the Employees' Health categories for two of its projects, School of Communal Good and Women's Health.

Metalloinvest enterprises won the XI Social Impact in Metals and Mining Industry competition

Metalloinvest's Mikhailovsky GOK and Ural Steel won the Employee Development category at the XI Social Impact in Metals and Mining Industry competition. The contest was held by the Russian Association of Metals and Mining Industrialists and the Central Council of the Russian Metals and Mining Union.



5.2 PERSONNEL DEVELOPMENT

A key priority of Metalloinvest's HR policy is the establishment of a transparent HR management system to hire skilled and committed personnel to achieve the Company's goals in line with its current production needs and strategic objectives.

Metalloinvest is committed to using new technologies that can improve work places, the selection and adaptation of employees, their professional training, and that can also create a conducive environment for the personnel to fulfill their potentials and improve their commitment.

THE COMPANY IS PROUD OF THE FOLLOWING HR ACHIEVEMENTS:

- an employee works at Metalloinvest for over 10 years on average;
- over 50% of its personnel hold university-level or trade-school diplomas;
- Company personnel earn over 40% more than the average wage in the regions where it operates.

Changes in headcount at Metalloinvest's plants over the last 5 years reflect the Company's focus on improving labour efficiency.

In 2014, the average headcount at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel was 42,000. Whatever headcount reduction took place was due to restructuring at Ural Steel.

The Company has sought to protect the legal rights and interests of the personnel it lays off. When it was downsizing, Ural Steel undertook a "soft" redundancy programme to retain its key skilled personnel and offered severance benefits to the discharged personnel that were far more generous than the legal requirements. Ural Steel personnel who were made redundant following the restructuring were offered to relocate and fill jobs at other Company plants.

As part of the investment programme, the Company hires new personnel to operate the new machinery and equipment at Oxygen Facility #2 at OEMK, in the new Pellet Plant #3 that is under construction at Mikhailovsky GOK and in HBI-3 Plant at Lebedinsky GOK.

In 2014, the payroll of Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel was RUB 18.5 billion, or 7% higher than in 2013. This was due to the indexation of wages in October 2013 and in August 2014 on account of inflation. The rise was compensated to an extent by headcount reduction.

In 2014, average monthly remuneration at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel increased by between 7.5% and 9.5% as compared with 2013.

The average monthly compensation of the employees exceeds wage levels in the regions where the company operates. In the Belgorod Region, wages at Lebedinsky GOK were higher by ≈51% than the regional average; at OEMK, by ≈66%. In the Kursk Region, compensation was ≈49% higher than the regional average at Mikhailovsky GOK, and, in the Orenburg Region at Ural Steel, they were higher by ≈43%.

In 2014, the gender composition of personnel at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel remained unchanged.

Personnel turnover at all plants is at the optimum level, which enables the Company to replace exiting staff through planned recruitment programmes.



MARINA NOVIKOVA,
Deputy CEO,
Organisational
Development and Human
Resources Management

“One of the Company's most important assets is its people. Hiring the highest-skilled personnel and setting the stage for them to fulfil their potential are the fundamentals of the Company's HR policy”.

INDUSTRY TARIFF AGREEMENT

A member of the Board of the Association of Russian Steelmakers (AMROS), Metalloinvest maintains the achieved level of social partnership by actively participating in the development of the Agreement on Amendments and Additions to the Industry Tariff Agreement for Mining and Smelting Complex of Russia in 2014–2016.

The Agreement on Amendments extends the validity of the Remuneration section until the expiration date of the Industry Tariff Agreement (ITA) without any major changes to the employer's obligations on increasing employee compensation. Additional changes were introduced in compliance with Federal Law #421-FZ dated December 28, 2013 On Introduction of Changes into Certain Legal Acts of the Russian Federation Following the Adoption of Federal Law On Special Assessment of Working Conditions.

The Industry Tariff Agreement regulates the key parameters of employer-employee relationships in areas such as remuneration, social programmes, training, and occupational health and safety. All companies in the industry are required to respect ITA conditions.

IMPLEMENTATION OF GRADING AND KPI SYSTEMS

In 2014, Metalloinvest introduced a remuneration system that assessed and assigned 'grades' to the Company's jobs and positions. The system was implemented in order to improve the transparency of the Company's employee remuneration system, to establish an efficient structure in its jobs and positions and to ensure a fair system for setting salaries, compensations and benefits as well as ensuring that its compensation levels meet market standards.



As part of the project 143 individual positions and over 200 position categories were described and appraised at Mikhailovsky GOK and at the Management Company Metalloinvest. Four assessment committees were set up to ensure an objective appraisal of the positions. Management Company Metalloinvest established a top-level committee, which included members of the Management Board and other executives, and formed a committee of division directors that assessed position categories. At Mikhailovsky GOK, the top-level committee includes executive-level personnel while the committee for assessment of position categories includes supervisory-level personnel. In 2015, positions will be assessed at other plants: LGOK, OEMK and Ural Steel.

In 2014, Metalloinvest launched a KPI system to define the Company's operational goals that are shared by all managerial personnel, and also some individual goals of individual units. The KPI system covers over 100 of Metalloinvest's key managerial personnel as well as key operational managers at its enterprises (Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel). In 2015, the number of employees involved in the programme is planned to increase to 500 managers, including mid-level managers of Metalloinvest and division managers at the Company's enterprises.

In 2014, as a result of the grading and KPI systems, and labour market trends, the Company developed a new remuneration structure for Management Company Metalloinvest and executives of the Company's enterprises (Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel). The new system was launched in 2015.

UPSKILLING AND THE DEVELOPMENT OF MANAGEMENT COMPETENCIES

The level of Company staff with qualifications is rising due to its ongoing staff training system.

In 2014, Metalloinvest provided training for 32,000 staff, including more than 16,000 managers and specialists and 16,000 workers.

Under the Presidential Programme for the Development of Engineering Personnel developed by the Russian Federation's Ministry of Education and Science, in 2014, the Company arranged training placements for the employees of the Management Company, including visits to operational sites of Rio Tinto and BHP Billiton in Australia. This enabled the selected employees to benefit from sharing experience in operational processes.

The Company continued to implement a programme to upgrade the competencies of top and mid-level executives. Its objective is to develop management skills, such as planning, delegation of authority, control, motivation, distribution of tasks, and time management. Over 1,500 managers participated in business training events to improve their management competencies.

During the first Strategic Session held for Metalloinvest's top-level executives, business training activities were organised to develop various management skills, such as strategic planning, communications and team work.

DEVELOPMENT OF CORPORATE COMPETENCIES MODEL

A project to develop a corporate competencies model was launched in 2014. To enable data collection and competence modeling, focus groups were set up that included foremen, department and shop supervisors and structural division managers at Mikhailovsky GOK and OEMK. Meetings were held with the executives and interviews were arranged with individual managers at different production channels. The Management Company held interviews with members of the Management Board (in which the members made their predictions) and set up focus groups with division directors.

To check and correct the findings, remote assessment techniques were used in the process of development of corporate competences. Professional and personal questionnaires were issued at the Management Company, Lebedinsky GOK, Mikhailovsky GOK, OEMK, Ural Steel and Ural Scrap Cinoabt which were filled out by 1,180 Company managerial personnel. Assessment of division directors' competence levels was carried out at the Management Company and for the executives of Mikhailovsky GOK.

All those participating in the assessment process received feedback.

The appraisal results were used to generate a model of competences that will be used to hire, promote and assess the performance of the Company's employees and managers.

REMOTE TRAINING

In order to improve dissemination of knowledge and to increase the number of people taking part in training, while respecting the fact that a common educational standard is required to apply to all enterprises regardless of their whereabouts, a remote training software Web Tutor was installed at the Company's four enterprises (Lebedinsky GOK, Mikhailovsky GOK, Ural Steel UralMetCom) and at the Management Company. The programme was integrated with the HR and mail systems at the Company's branches. At the next stage of implementation of the remote training system, all databases will be aligned with one another and will be integrated into a single training system.

PERSONNEL RESERVE

In 2014, 657 managers and specialists included in the pool of potential candidates for managerial positions received required training. Training was also provided for 1,196 candidates for worker roles.

In 2014, the Company prepared a common policy for the development of a skill pool for the companies that Metalloinvest controls to ensure that the Company has the necessary staff to meet its requirements during the next 1 to 3 years.



SKILLS COMPETITION

In 2014, Metalloinvest held the 3rd Corporate Competition of Occupational Excellence at the Company's four enterprises and Management Company to refine workers' skills, to increase the attractiveness of worker-level jobs and to identify the top performers in their occupations. This competition covered nine steelmaking, mining and administrative occupations, and in total, 84 employees took part.

EMPLOYEE ENGAGEMENT

In line with the global best practices, in 2013 the Company examined for the first time employee engagement levels at Lebedinsky GOK, Mikhailovsky GOK, OEMK and the Management Company. Almost 29,000 staff were polled in the survey.

Employee engagement is an indicator that reflects the extent to which employees are proud of their work at a company, their willingness to stay with the company and to recommend it to others as an employer, as well as how much extra effort employees are willing to put in to achieve results.

The findings of the survey served as the basis for preparing and implementing a systemic approach to a project that aimed to increase the loyalty and commitment of Metalloinvest's staff in order to retain the best personnel and improve the Company's business processes. The implementation of this project contributes towards the improvement of the overall efficiency of the Company's operations.

In 2014, 89 projects and activities were developed and implemented at Lebedinsky GOK, Mikhailovsky GOK and OEMK to increase their employee engagement levels, which were measured at 27, 35 and 27 respectively. Among these projects were a manufacturing contest at LGOK, a contest for the title of the Best Young Manager at MGOK, and an information-sharing day with the participation of top-level executives at OEMK.

Around 50 initiatives were suggested at the Management Company, including employee incentive schemes, upskilling programmes, the automation of internal business processes, and corporate sports programmes.

In 2015, a second survey of personnel commitment will be held to identify the effectiveness of the changes that have been implemented. This survey will also be used to prepare a plan for follow-up measures.

DEVELOPMENT OF THE COMPANY'S IMAGE AS AN EMPLOYER

In 2014, Metalloinvest continued to implement a project aimed at shaping the Company's image as an employer. Students of top Russian universities ranked Metalloinvest 36th in the TOP 100 ENGINEERING employers based on an annual poll to identify the 100 best employers in Russia. The Company achieved this good result in large part because it had launched a number of programmes for university students. One of these programmes offers internships to recent university graduates who are looking to start a career within the Company.

5.3 OCCUPATIONAL HEALTH AND SAFETY

The Company has a consistent policy to improve occupational health and safety measures and working conditions at the operational units of each of its enterprises.

All the enterprises have comprehensive programmes to improve working conditions, which have been developed using data that measures the occupational hazards and are based on the requirements of the current collective bargaining agreement. Enterprises evaluate working conditions and implement measures to mitigate the impact of the workers' exposure to hazards. In 2014, nearly USD 5.32 million was allocated to occupational health and safety measures.

Targeted work is in progress to enhance the quality and effectiveness of personal and collective protective equipment used by the workers. Last year, USD 7.31 million was spent on modern personal protective equipment.

Occupational health and safety efforts at Company enterprises are undertaken in accordance with plans for major health and safety efforts and assessment of operational risks. In 2014, more than USD 15.55 million was allocated for programmes and efforts to improve industrial and fire safety.



5.4 ENVIRONMENTAL PROTECTION

To achieve its environmental protection goals, the Company complies with the current national regulatory requirements and embraces the principles on the sustainable use of natural resources, on the reduction of harmful emissions, on the sparing use of water resources, on the careful placement and recycling of waste, and on the recultivation of disturbed land.

Due to the attainment of its environmental investment targets, the Company's enterprises are able to minimise the environmental impact of their operations. In 2014, more than USD 53 million was spent on environmental protection investments and on the sustainable use of natural resources. This includes approximately USD 5.85 million which was allocated for the current environmental protection efforts of the enterprises.

The construction and launch of a Coke Oven Battery N#6 at Ural Steel, which is equipped with a dust-free coke pushing system and includes a functionality for capturing and filtration of dust and gas emissions, is an important milestone in reducing the Company's environmental impact.

In 2014, the Company received a certificate from the World Steel Association (WSA) that confirmed the Company's compliance with its reporting obligations regarding accurate CO₂ data. These reports are based on a uniform methodology developed by the WSA for steel companies.

The Company's enterprises are guided by both national and international standards when addressing the environmental aspects of their operations. In 2014, OEMK and Ural Steel successfully passed supervision audits; Lebedinsky GOK and Mikhailovsky GOK passed recertification audits of their environmental management systems, which confirmed their compliance with the international requirements of ISO 14001.



FOR MORE
INFORMATION
ON
CERTIFICATION
AUDIT, SEE P. 73

5.5 INFORMATION DISCLOSURE

METALLOINVEST IMPLEMENTS MEASURES TO IMPROVE ITS INFORMATION DISCLOSURE PROCEDURES. WINNING THE TRUST OF THE INVESTMENT COMMUNITY IS ULTIMATE OBJECTIVE OF THE COMPANY'S PUSH TOWARDS GREATER TRANSPARENCY. THIS OBJECTIVE IS MET THROUGH TIMELY DISCLOSURE OF INFORMATION REGARDING:

- the Company's operational and financial performance;
- the Company's strategic goals;
- key corporate events that take place between publications of periodic reports and that are subject to mandatory disclosure;
- the members of the Board of Directors, including their qualifications and the Board's opinion regarding their independence;
- Company executives and other stakeholders;
- the Company's policy on environmental protection, personnel, and social activities.

In 2014, Metalloinvest continued its efforts to cut the time required for collection of financial information and to increase the quantity of information disclosed in line with the Company's focus on enhancement of transparency.

Metalloinvest participates in international conferences organised by investment banks and arranges investors events, including non-deal road shows and the annual Investor Day, continuously developing the base of existing and potential investors. Many investors and analysts are given the opportunity to visit the Company's production assets.

In June and September 2014, Metalloinvest continued its practice of giving investors and analysts access to the Company's operational sites by arranging visits to Lebedinsky GOK and OEMK.

In February 2015, Metalloinvest upgraded its corporate website (www.metalloinvest.com). The latest multimedia and new techniques that are used on the new site will help to considerably raise the awareness of the Company and its activities among its stakeholders. In 2015, the Company's corporate website won an award at the 3rd annual Digital Communications AWARDS in the "Digital platform: B2B corporate website" category.

As a result of the Company's efforts to promote open dialogue with investors and analysts, the investment community is becoming increasingly interested in the Company.



COMPANY HISTORY

2006

Metalloinvest's assets (Mikhailovsky GOK and Ural Steel) were consolidated with the assets of Gazmetall (Lebedinsky GOK and OEMK).

2007

Lebedinsky GOK completed the construction of the HBI-2 Plant.

Mikhailovsky GOK introduced new concentrate flotation technology.

2008

Gazmetall was renamed Holding Company METALLOINVEST, and was reorganised into an open joint-stock company.

Ural Steel reconstructed Plate Mill 2800 and its electric arc furnace plant, to provide a total capacity of 2 million tonnes of steel per year.

2009

Metalloinvest and Rosnedra signed a licencing agreement to develop the Udokan copper deposit.

2010

Metalloinvest was the first Russian metals and mining company to pass REACH registration.

IMC confirmed an increase in Metalloinvest's proven and probable iron ore reserves from 13.8 billion to 14.9 billion tonnes according to JORC international classification.

Moody's assigned Metalloinvest a long-term rating of Ba3 with a Stable outlook.

A finishing plant at Rolling Mill 350 was put into operation at OEMK.

2011

Metalloinvest raised a USD 3.1 billion syndicated loan (PXF), the largest in Russia in the post-financial crisis period. In 2013, Metalloinvest paid back a USD 700 million loan ahead of schedule.

Fitch assigned Metalloinvest a long-term rating of BB- with a Stable outlook.

Metalloinvest successfully issued USD 750 million Eurobonds with maturity in five years and a coupon of 6.50% per annum.

Metalloinvest signed the Memorandum on Corporate Social Responsibility.

2012

The Company raised RUB 25 billion (about USD 823 million) through its debut issue of ten-year RUB-denominated bonds with an early redemption option in three years and a coupon rate of 9.0%.

Metalloinvest sold its transport subsidiary Metalloinvesttrans to Globaltrans. The deal was worth USD 569 million.

OEMK was the only Russian company to win a 2012 Schaeffler Supplier Award from Schaeffler Group, the leading global manufacturer of frictionless bearings. The award has confirmed that the quality of Metalloinvest's products meets the highest international standards.

Standard & Poor's assigned Metalloinvest a long-term credit rating of BB- with a Positive outlook.

Lebedinsky GOK completed the first stage of HBI-2 Plant's modernisation. Mikhailovsky GOK began equipment installation at Pellet Plant #3.

Metalloinvest launched a new corporate brand.

2013

Metalloinvest signed a contract with Primetals Technologies GmbH (Austria) and Midrex Technologies, Inc. (USA) for the construction of the third HBI plant (HBI-3 Plant) at Lebedinsky GOK with a production capacity of 1.8 million tonnes per year.

Ural Steel finished the planned decommissioning of the open-hearth production to increase its economic efficiency and environmental safety.

Fitch revised the outlook for Metalloinvest from Stable to Positive and reaffirmed its BB- long-term issues default rating. Moody's upgraded the Company's credit rating from Ba3 to Ba2 with a Stable outlook.

The Company issued RUB-denominated bonds for an amount of RUB 10 billion (approximately USD 330 million at an average nominal USD to RUB exchange rate in 2013 of 31.82) with a coupon rate of 8.9% per annum, maturity date in 2023 and an early redemption option in 2018. The raised funds were used to repay ruble bank loans.

Metalloinvest successfully issued USD 1 billion Eurobonds with a coupon rate of 5.625% and maturity date in 2020. The raised funds were used to refinance USD 1 billion out of the remaining USD 2.15 billion syndicated loan (PXF).



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