



UNITED  
METALLURGICAL  
COMPANY

2014

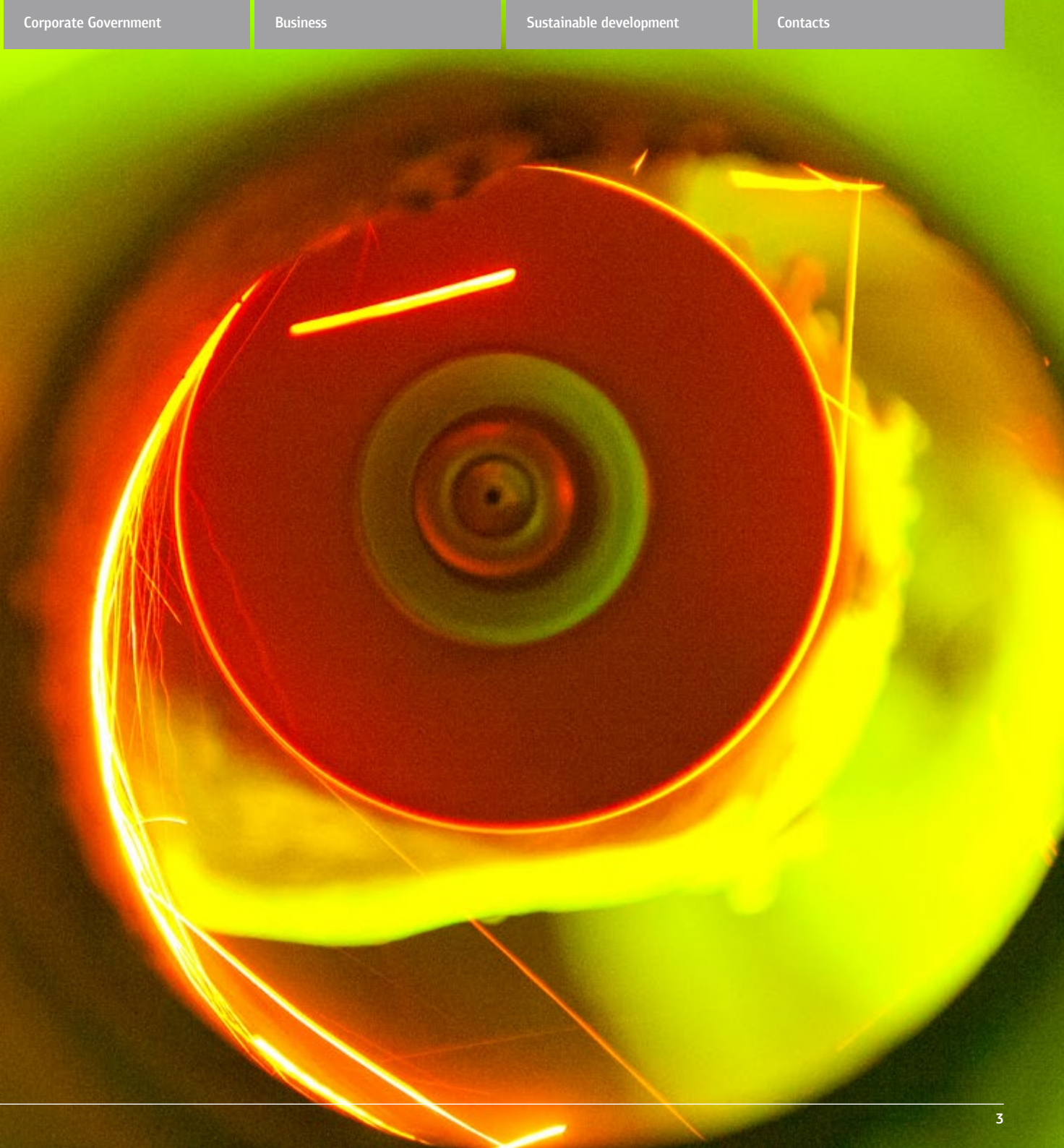
ANNUAL REPORT



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# 1. REVIEW



## 1.1. ABOUT OMK

**OMK IS AN ADVANCED INTEGRATED PRODUCER OF STEEL, ROLLED SHEET, PIPES, RAILWAY WHEELS, SPRINGS, PIPELINE VALVES AND FITTINGS.**

**OMK CONSISTS OF SEVEN LARGE INDUSTRIAL PLANTS**

**VYKSA STEEL WORKS  
(VSW, NIZHEGORODSKAYA OBLAST')**

**CASTING AND ROLLING COMPLEX  
(CRC, NIZHEGORODSKAYA OBLAST')**

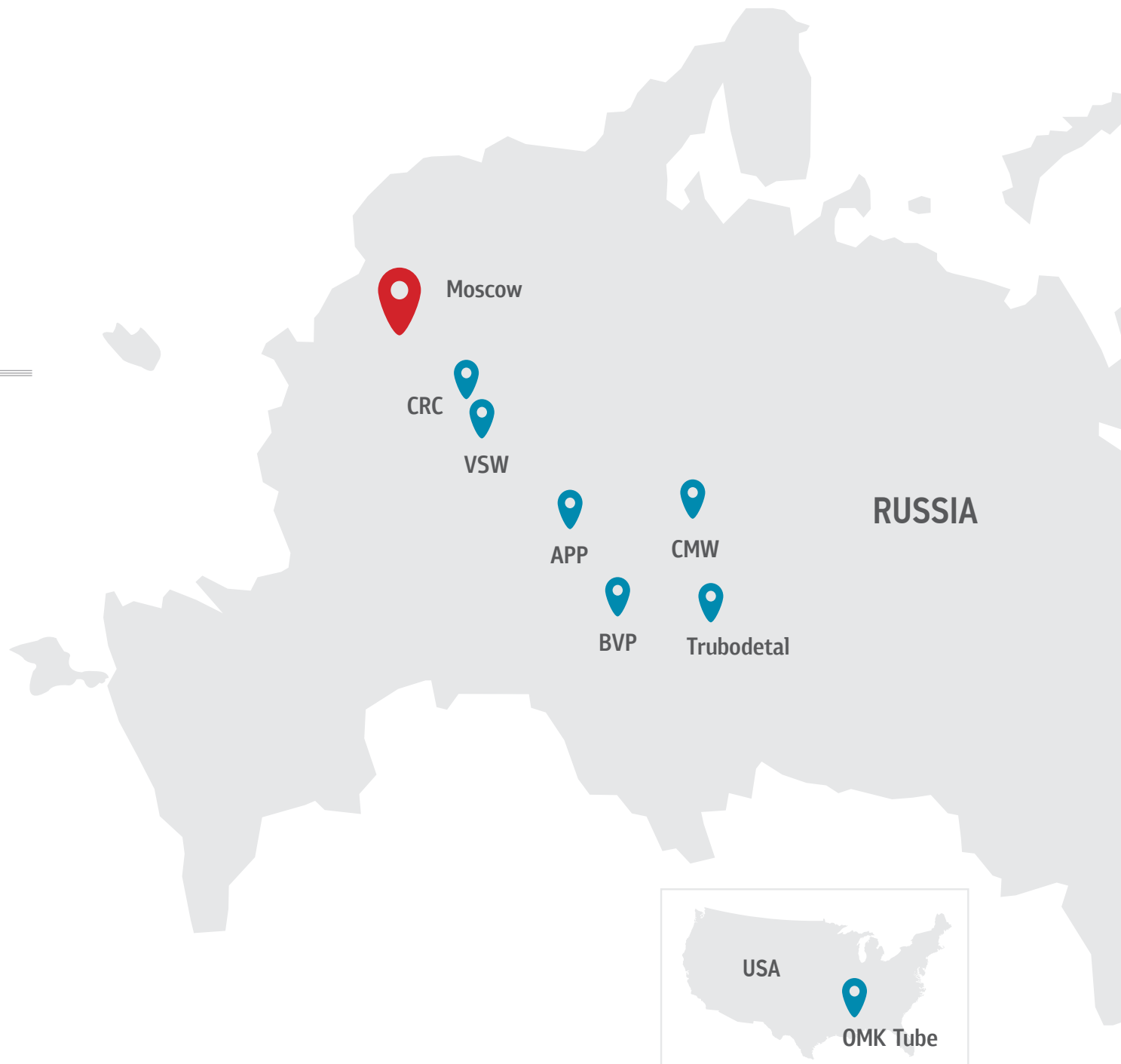
**BLAGOVESHCHENSK VALVES PLANT  
(BVP, REPUBLIC OF BASHKORTOSTAN)**

**TRUBODETAL PLANT  
(CHELYABINSKAYA OBLAST')**

**ALMETYEVSK PIPE PLANT  
(APP, REPUBLIC OF TATARSTAN)**

**CHUSOVOY METALLURGICAL WORKS  
(CMW, PERMSKY KRAY)**

**OMK TUBE (HOUSTON, USA)**



## 1.1. ABOUT OMK



Two advanced LDP lines

**2** CAPACITY  
MT/Y



The world's highest-capacity all-rolled railway wheel line with its own steelmaking facilities

**850** CAPACITY  
K PIECES/Y



The largest supplier of automobile springs to major machine works across the country

**90** CAPACITY  
K PIECES/Y



## ACHIEVEMENTS

The United Metallurgical Company is one of the world leaders in the metal and pipe-making industry. OMK's business is widely diversified. The Company holds leading positions in the Russian LDP, railway wheel, truck spring markets and produces a wide range of tubular products for the fuel and energy sector, including oil and gas production, development and public utilities. We offer comprehensive solutions and qualitative products to companies producing and transporting oil and gas, conveying people and materials.

We occupy the first place in Europe in terms of the volume of LDP, railway wheels and automobile springs production.

### Clients

The list of clients includes Gazprom, Rosneft, Lukoil, Transneft, RZD, Novatek, Gazprom Neft, KAMAZ, GAZ and other companies ranked among the largest nationwide in terms of [capitalization](#).

Many of the largest foreign corporations, including Exxon Mobil and General Electric, are also consumers of our products, which further confirms OMK's competitive edge in the global market.

**I** place  
in Russia

Large diameter pipes

**32%**<sup>1</sup>

Railway wheels

**54%**

Automobile springs

**68%**

**II** place  
in Russia

Casing pipes

**23%**

Pipes overall

**17%**

Significant  
share

Oil and gas and special pipes

**15%**

Pipeline fittings

**20%**

Pipeline valves

**12%**

<sup>1</sup> On this page: shares that belonged to OMK in the Russian market in 2014.

## 1.1. ABOUT OMK

### OMK BUSINESS IS DIVIDED INTO SEVEN DIVISIONS



#### OIL AND GAS PIPE DIVISION

- Casting and Rolling Complex (CRC) — production of hot-rolled plates (Vyksa);
- 2nd Electric Welding Pipe Shop of OJSC VSW — production of pipes for utilities (UP) and small-section pipes (Vyksa);
- 3rd Electric Welding Pipe Shop of OJSC VSW — production of oil and gas pipes (OGP) and heavy-section pipes (Vyksa);
- 5th Electric Welding Pipe Shop of OJSC VSW — production of casing pipes (Vyksa).



#### LARGE DIAMETER PIPE DIVISION

- Heavy Plate Mill 5000 (Mill 5000) of OJSC VSW — production of hot-rolled plates (Vyksa);
- 4th Electric-Welding Pipe Shop of OJSC VSW — production of large diameter pipes (Vyksa).



#### APP DIVISION

- Almet'yevsk Pipe Plant (Almet'yevsk) — production of oil and gas, utilities and shaped pipes.



#### CMW DIVISION

- Chusovoy Metallurgical Works (Chusovoy) — production of automobile springs.



#### RAILWAY WHEELS DIVISION

- Steelmaking facilities of OJSC VSW (Vyksa) — production of railway wheel blanks;
- Wheel rolling facilities of OJSC VSW (Vyksa) — production of railway wheels.



#### FITTINGS AND VALVES DIVISION

- Trubodetal Plant (Chelyabinsk) — production of fittings;
- Blagoveshchensk Valves Plant (Blagoveshchensk) — production of valves.



#### NORTH AMERICA DIVISION

- Pipe shop (Houston) — production of casing and tubing pipes;
- Finishing shop (Houston) — pipe finishing treatment.

## 1.1. ABOUT OMK

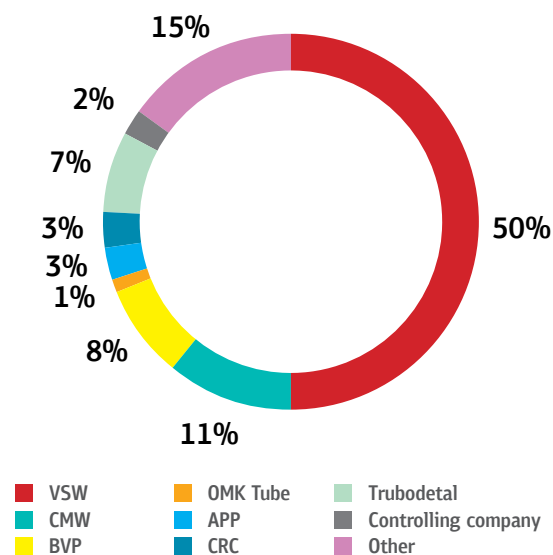


### TEAM

Employees as of 31.12.2014

# 27,021

Personnel structure



# 28%

Share of employees under-30 y.o.



OMK CONTINUES TO LOOK TO DEVELOP ITS OPERATING AREAS, TO SUPPORT SPORTS, CULTURE AND EDUCATION AND IS ENGAGED IN THE PROMOTION OF PATRIOTISM AND THE PRESERVATION OF RUSSIA'S HISTORICAL HERITAGE.

## IN 2014, OMK APPLIED 379 MLN RUBLES TO CHARITY AND SOCIAL PROJECTS

Average growth in the employee' average pay in 2014

# 12%

Excess in the employee's average pay at OMK's Vyksa plants over the average pay in Nizhny Novgorod region as of 31.12.2014

# 29%

## 1.2. BEST PROJECTS

### OMK HAS A RICH EXPERIENCE OF SUPPLIES FOR THE LARGEST PIPELINE PROJECTS

#### TOP PIPELINE PROJECT WITH OMK PIPES IN 2005-2014

##### NORD STREAM

**460** K  
TONS  
PIPES



##### EAST SIBERIA — PACIFIC OCEAN

**400** K  
TONS  
PIPES



##### MIDDLE ASIA — CHINA

**385** K  
TONS  
PIPES



##### SAKHALIN—Khabarovsk—VLADIVOSTOK

**355** K  
TONS  
PIPES



##### BOVANENKOVO — UKHTA

**210** K  
TONS  
PIPES



##### DZHUBGA — LAZAREVSKOYE — SOCHI

**210** K  
TONS  
PIPES



##### SOUTH STREAM

**600** KMS  
PIPES



##### BALTIC PIPELINE SYSTEM

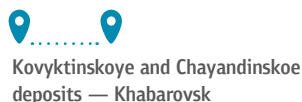
**85** K TONS  
PIPES



##### POWER OF SIBERIA

In 2014, OMK has supplied the first part of pipes

**30** K TONS  
PIPES



## 1.3. MAJOR MILESTONES IN 2014



### BUSINESS

- OMK won two tenders for the delivery of 600 km of pipes for the South Stream;
- OMK commissioned the first Russian fabrication line designed to produce railway wheels for high-speed operation;
- OMK opened its second engineering and technology centre in Ufa. The company's first engineering and technology centre is working in Vyksa; its developments provide hundreds of millions of rubles;
- OMK dispatched over 30,000 tons of LDPs for the construction of the Power of Siberia gas transportation system.



### SOCIAL RESPONSIBILITY

- OMK implemented a programme of employee engagement improvement at all of its enterprises;
- A project of professional career development has started;
- A programme of separate waste collection development was created;
- There were no accidents with lethal outcome at OMK's plants;
- A regulation "Sponsor and charitable activity at OMK" was developed;
- OMK and NUST MISIS have published the ultimate volume of the "Metallurgy and time" encyclopedia;
- The "OMK-Uchastie" charity fund has given 3 mln rubles to help 36 families.



### AWARDS

- OMK became a "Russian Business Captains" award winner;
- Russian oil and gas companies declared OMK the best national tubular producer again;
- OMK won the philanthropist contest "Nizhny Novgorod Phoenix 2014";
- VSW was awarded by the Government of Nizhny Novgorod region for sports support;
- In 2014, OMK employees have received 3 state awards, 56 departmental awards, 47 regional awards, 59 municipal awards and more than 560 corporate awards;
- VSW social facilities were declared leaders in the tourism industry of the Nizhny Novgorod region;
- VSW museum of history received a certificate of the "Intermuseum 2014" festival;
- The Casting and Rolling Complex won the Kulibin Award (Nizhny Novgorod Region);
- VSW was declared a best Russian exporter of articles made from ferrous metals to CIS countries;
- VSW became a "Conscious Choice" award winner for the best career guidance project – the "Industry" business game for 9th graders;
- VSW employees won the national leg of the World Skills international blue-collar championship.



### CERTIFICATES AND ASSOCIATIONS

- OMK joined the Russian Steel non-profit partnership, the World Steel Association and the Association of Steel Construction Development of Russia;
- VSW certified the production of large diameter pipes from its own sheets in compliance with the DNV-OS-F101, Submarine Pipeline Systems, standard and received the European certificate for the new design of railway wheels;
- BVP received a permit to produce valves for nuclear energy companies and new certificates of the American Petroleum Institute;
- Trubodetal received a certificate for the supply of products for thermal power plants to the Customs Union member countries and confirmed compliance of its products and welding process with the European directive.

## 1.4. KEY RESULTS OF 2014



### FINANCE

Revenue

↑ **129** BLN RUB.  
(+23%)

EBITDA

↑ **25** BLN RUB.  
(+22%)

Investments

↓ **11.5** BLN RUB.  
(-29%)

Net loss

**-13** BLN RUB.



### PRODUCTION

Pipes overall (including OMK Tube, USA)

↑ **2,123** K TONS  
(+19%)

Large Diameter Pipes

↑ **1,058** K TONS  
(+33%)

Railway wheels

↓ **450** K PIECES  
(-30%)

Pipeline fittings

↑ **19** K TONS  
(+40%)

Pipeline valves

↓ **6.4** K TONS  
(-8%)

Automobile springs

↓ **55** K TONS  
(-7%)

Wide sheets

↑ **1,029** K TONS  
(+17%)

Wide sheets

↑ **708** K TONS  
(+30%)



### HUMAN RESOURCES

Investments in education and development

↑ **227** BLN RUB.  
(+34%)

Share of entrained employees

↑ **43%** (+10%)

## 1.5. CHAIRMAN'S STATEMENT



Anatoly Sedykh,  
Chairman

### DEAR COLLEAGUES AND FRIENDS!

**LAST YEAR WAS VERY INTERESTING, INTENSE WHILE, AT THE SAME TIME, COMPLEX AND STRESSFUL. ON THE ONE HAND, WE IMPROVED OUR OPERATING PERFORMANCE, INCREASED THE VOLUMES OF KEY PRODUCTS, REVENUES AND ALSO EBITDA (IT WAS INCREASED FOR THE FIRST TIME IN FOUR YEARS; THE GROWTH WAS 22%). ON THE OTHER HAND, WE HAVE FIRSTHAND KNOWLEDGE OF THE HARD-HITTING NEGATIVE IMPACT OF EXTERNAL FACTORS, WHICH LED TO A NEGATIVE NET PROFIT FOR THE FIRST TIME IN THE COMPANY'S HISTORY.**

The key factors that have affected the company's business include the weakening ruble and a substantial appreciation of borrowed funds. The market situation was further worsened by a dramatic decline in oil prices which, in addition to other factors, lowered the appeal for investment in the oil industry, and the aforementioned industry represents a palpable part of our tubular shipments. These factors combined to create serious woes in the funding of the company's investment and operating business, taking the form of exchange rate losses and leading to growing corporate debts in rubles equivalent and an increase in expenses on the service of the foreign exchange loans that we had raised to develop the large diameter pipes division. This complicated the company's investment and operational activity.

We kept the situation under control and staved off serious implications for the company's operations. Nevertheless, we had to reduce investments by one third to 11.5 bln rubles, whereas these figures had been kept steady at about 16-17 bln rubles per annum for the last three years, and slow down the delivery rates of many projects.

Despite complications, our priority is still to provide stable work for the company and its employees, to pay salaries timely and provide social

guarantees and motivation for the personnel. In particular, the average salary at OMK plants in Vyksa is 29% higher than the average salary in the Nizhny Novgorod region. Also the volume of social benefits rose 8% y-o-y to 448.9 mln rubles.

We pay greater attention to quality and safety of working conditions. Last year, the company's plants (except for Blagoveshchensk Valves Plant) fully implemented OHSAS 18001 requirements. BVP, which entered OMK in 2013, is also expected to implement and gain an OHSAS 18001 certificate, this is our priority task for 2015.

OMK has invested 379 mln rubles for social projects, sponsorship and charity in 2014. We take part in the development of the company's regions of presence and charity projects, which is very important during times of crisis. In Chusovoy a branch of the Ural Federal University was opened, a festival of professional orientation for children was held in Vyksa. The company supported sports and volunteer projects, which is appreciated by the employees and their families. The Art-Ovrag festival of modern culture is being held with the support of corporate charity fund "OMK-Uchastie" for four straight years. The festival is one of the most important cultural events of the whole region. ►►

## 1.5. CHAIRMAN'S STATEMENT

EBITDA growth

↑ **22%**

Investments in 2014

**11.5** BLN RUB.

Excess in the employee's average pay at OMK's Vyksa plants over the average pay in Nizhny Novgorod region as of 31.12.2014

**29%**

Share of engaged employees grew to

**43%** (+10%)

## STRATEGY IMPLEMENTATION

There was a landmark event for our company in early 2014. OMK was awarded a contract to ship over one third of all the required volume of large diameter pipes for the first two strings of the South Stream main pipeline across the bed of the Black Sea. The contract strengthened our positions as the world's LDP leaders with the largest subsea pipelines portfolio and increased our chances on the market. This is a logical result of many years of work by the company's team and our investments in the development of innovative pipe technologies. At the end of the year we also won the first tender and started shipments for the Power of Siberia gas pipeline.

We kept developing promising segments of pipeline fittings, valves, pipes and equipment for oil and gas production and building a packaged proposal for the fuel and energy segment. In order to develop in this direction, we opened a specialized engineering and technological centre in Ufa. We are keen to become the Russian leaders in this business segment. Its continuous growth along with LDP made the largest impact in the company's EBITDA growth.

In 2014, OMK implemented a number of investment projects, including:

- Enhancement of the Heavy Plate Mill 5000 to increase its productivity;
- Modernization of the 2nd Electric Welding Pipe Shop of VSW;
- Construction at VSW of the first Russian line for the fabrication of railway wheels for high-speed operation;
- Arrangement of a new external corrosion-resistant LDP coating station;
- Replacement of the equipment stock at Blagoveshchensk Valves Plant.

Unfortunately, we had to shut down construction of the tube making and steelmaking complex in Chusovoy. The project was on schedule by the middle of December 2014. But then foreign currency exchange rates skyrocketed and the estimated price of the project doubled. Moreover its production was intended to be used for oil exploration and extraction. Low oil prices impair the expected demand for products of the future complex, affecting the ROI estimates of the new production facility and bank loan possibilities. In these conditions continuation of the project could have affected the stability of the whole company, and we had to make this tough decision.

We mounted further serious efforts to increase productivity and effectiveness, to optimize operating processes and to improve the management system. Every plant within the Group made progress in implementing OMK's production system.

In 2014, the company continued to implement the project of creating an active production environment. Its goal is to create an atmosphere in which employees are attracted by their work; they participate in improvements discussions that help the company. This resulted in the growth of employees' engagement level from 39% to 43%. Recently OMK has been acknowledged as the best employer among Russian metallurgical and mining companies based on the results of the 2015 Randstad Award, the world's largest independent employer branding survey. ►►

## 1.5. CHAIRMAN'S STATEMENT



### GOALS FOR 2015 AND PERSPECTIVE

In the new economic situation, we started adjusting our strategy for the mid- and long-term OMK development. Today, the top priority objectives are as follows: to maintain and strengthen the stability of our financial and operational indicators, to properly judge our capabilities, strengths and means and to find an optimal growth path.

- It is essential that we narrow the horizon analysis in the current conditions. The long-term market situation cannot be forecast, which is why we cannot make long-term business development plans. As a temporary way out, therefore, we are thinking about the implementation of smaller-scale projects with a high degree of effectiveness.
- Today, all employees of the company and inhabitants of our operating areas will have to taste the effect of the ongoing changes and we should not be misguided about it. We have a difficult task ahead of us to stave

off a decline in payroll rate and the curtailing of social programmes. Ultimately, this will chiefly depend on how effective we are able to adapt the company to the new economic challenges.

- Having analyzed the effectiveness of the company's charity programmes and social investments during 2011-2014, we decided to move away from conventional charity tools based on targeted aid and patronage to the social partnership, a system of charity and engagement of local communities and employees in delivery of projects in our operations areas. In 2015, the company will hold a contest of social and charitable projects called "OMK-Partnership."

**I WOULD LIKE EXPRESS MY GRATITUDE TO ALL OF OUR PARTNERS, BUSINESS LEADERS: GAZPROM, LUKOIL, RZD, TRANSNEFT, GAZPROMNEFT, SMS AND MANY OTHERS. WE ARE ALSO GRATEFUL TO BANKS: SBERBANK OF RUSSIA, GAZPROMBANK, ROSBANK, UNICREDITBANK, NORDEA BANK AND OTHERS, FOR THEIR SUPPORT AND FAITH IN OUR PROSPECTS.**

**A SPECIAL THANKS IS DUE TO THE OMK TEAM AND TO ALL EMPLOYEES OF THE COMPANY. WE HAVE REMARKABLE PEOPLE, LEADERS OF IN THEIR PROFESSIONS, TAKING THE COMPANY FORWARD PERSONALLY AND BACKING UP ALL OUR INITIATIVES PASSIONATELY AND DEVOUTLY. TOGETHER WE CAN ACHIEVE THE MOST DIFFICULT GOALS. WE ARE GOING TO FURTHER DEVELOP THE COMPANY AS THE TEAM FOR THE BENEFIT OF EACH OTHER, OUR RELATIVES, AND OUR COUNTRY!**

**ANATOLY SEDYKH**

## 1.6. PRESIDENT'S STATEMENT

**DEAR COLLEAGUES,**

**IN 2014, OMK SHOWED ITS ADAPTABILITY TO DRAMATIC CHANGES IN THE MARKET SITUATION AND ITS CAPABILITY TO INCREASE SALES IN THE KEY BUSINESS AREAS DESPITE THE ONGOING CRISIS. WE MADE MOST NOTICEABLE PROGRESS IN THE LARGE DIAMETER, SHAPED, OIL AND GAS PIPE AND FITTINGS SEGMENTS. IT HAPPENED THANKS TO THE IMPLEMENTATION OF OUR STRATEGY TO IMPROVE THE QUALITY OF TUBULARS AND TO BUILD A PACKAGED PROPOSAL FOR THE FUEL AND ENERGY SEGMENT.**

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However, despite good operating results, OMK ended the year with a net loss due to external factors. Today, there is now a trend towards economic stabilization, which allows us to hope for an improvement in the company's standing and resumption of its steady development. We understand that consequences of recent changes will be felt throughout the entire Russian economy for a very long time and we continue to take steps to adapt our plans to the situation of uncertainty and, more importantly, low oil prices and the high cost of capital. Thus, our development plans will be changed in favour of smaller-scale projects with a shorter payback period. In no other way can we maintain the company's financial stability while ensuring further steady development of OMK's business in the coming years. ►►

Vladimir Markin  
President



## 1.6. PRESIDENT'S STATEMENT

Growth of pipes production volume

↑ 19%

Increase of pipeline fittings production volume

↑ 40%

### PRODUCTION AND SALES

In 2014, OMK has produced more than 2.1 mln tons of pipes, which is 19% more than a year before. From that figure, more than 1 mln tons are accounted for large diameter pipes, which means 33% growth compared to the year of 2013 and confirms our leadership in this segment. LDPs account for 40% of the company's revenue.

Oil and gas and general purpose pipes account for 400 thousand tons (17% growth y-o-y) from more than 1 mln tons of pipes that have been produced by OMK. We also showed 40% increase in pipeline fittings production. We achieved growth in broad sheets and hot-rolled products. Spring production facilities showed steady results – 55 thousand tons. In 2014, CMW has been confirmed an official supplier to one of Volvo's plants in Kaluga.

In 2014, we showed a serious slowdown in the railway wheel division. Having retained our leadership in overall production for the Russian gauge, we reduced production of wheels by one third to 450,000 wheels. The decline was predictable: there was a major contraction of this market due to the decline in car production and the negative impact produced by predatory supplies of Ukrainian wheels. Nevertheless, we plan to keep the volume of shipments at 450,000 wheels in 2015, inter alia, thanks to the increase in railway wheels supplied to foreign countries.

Following the impact of external factors and negative trends in the national economy, we faced a drastic increase in the manufacturing cost of our products. Hence, we had to increase selling prices. Then again, they rose much less than the prices for raw materials and stock. The stabilization of the macroeconomic situation and an active dialogue with our consumers helped us contract volumes necessary to load production facilities and meet the interests of our customers.

### DIVISIONS

In 2014, all seven OMK divisions demonstrated good work. The most substantial events took place in the key large diameter pipe division where we kept developing and diversifying our range. A new corrosion-resistant coating station at VSW allowed the company to equalize coating and pipe-making capacities. Improving the technology at the Heavy Plate Mill 5000 increased its productivity over most of its product mix by 25%.

In the OGP division, we fully upgraded the equipment of VSW's oldest pipe shop, producing popular shaped pipes for construction and pipes for public utilities. It helped expand the capacities, range and quality of pipes. Moreover VSW delivered the project to expand capacities for the production of casing pipes with complex threads and high steel grades.

The fittings and valves division has been developing rapidly. In order to increase effectiveness in management of this new essential business line, Igor Voronin set his mind on the strategic development of the division. Andrey Korotkov, who had headed one of the largest pipe-making companies in Ukraine for many years, replaced him as Trubodetal Director. Trubodetal has successfully mastered new equipment for cold pipe bending to produce heavy duty bent branches. The plant also completed an order for unique mounting components for Russkaya and Kazachya compressor stations of the Southern Corridor project.

As for the Blagoveshchensk Valves Plant, it joined OMK only two years ago but, in 2014, the plant has already secured the leadership position in its industry thanks to investments in the entire machining equipment fleet, including new machining centre units and test benches for valves. We are preparing to install a brand new induction furnace and a new moulding line in the plant. The enterprise improved the quality of its products and manufacturing capabilities and set up production of new types of butterfly valves, X-mas trees and ball valves. Our short-term plans include the start of valve shipments for nuclear energy companies.

The "sinking" of the wagon building market affected, among other things, OMK's railway wheel division operations. Last year, however, we commissioned the first Russian line for the fabrication of railway wheels for high-speed operation in order to localize production of wheels for Lastochka and Sapsan trains. We will be ready to deliver the first shipment of wheels for Lastochka trains in 2015.

In other divisions — APP, CMW and North America — we executed the strategic programme designed to increase the effectiveness of the operating business. Almet'yevsk Pipe Plant continued to increase production of all types of pipes. Chusovoy Metallurgical Works optimized its operating processes and developed new markets. While OMK Tube, the company's U.S.-based asset, showed considerable progress towards reaching the project capacity.

We see further increases in competitiveness by optimizing the operating cycle and creating new products and, of course, cutting expenses as the key objectives for all of our divisions for 2015. ►►

## 1.6. PRESIDENT'S STATEMENT

### INDUSTRIAL SAFETY AND ENVIRONMENTAL ISSUES

We are consistently working to improve standards of safety in our operations. In 2014, we developed our production culture, implemented automated labour safety management systems, labour safety guidelines and standards based on risk evaluation and maps of step-by-step operations. We seek to minimize the negative impact of our production facilities on the environment by applying the most advanced solutions to that effect. In the reporting year, OMK applied significant investments to environmental projects and labour safety efforts, while the total expense has exceeded 1 bln rubles over the last 10 years.

### PLANS FOR FUTURE

In 2015, we need to focus on the segments in which we are acknowledged leaders and in which we took steps for development:

- We intend to take part in the implementation of such large pipeline projects as the Power of Siberia, Southern Corridor, Turkish Stream, etc.;
- We expect further steady growth of oil and gas and general purpose pipe production;
- We plan to increase the volume of valve production by decreasing the share of imports and launching new types of products;
- We also expect to increase shipments of railway wheels to non-CIS countries.

**FOR MY PART, I WOULD LIKE TO THANK ALL OMK EMPLOYEES FOR THEIR HIGH QUALITY OF WORK AND LOYALTY TO THE COMPANY AT THIS SENSITIVE TIME AND UNTIRING DEVELOPMENT. THE CONTRIBUTION EACH OF YOU, DEAR COLLEAGUES, MADE TO SECURE THE COMPANY'S SUCCESS, ITS STRONGER LEADERSHIP IN MANY INDUSTRIES CANNOT BE OVEREMPHASIZED. I WISH ALL OF US NEW VICTORIES AND ACHIEVEMENTS IN 2015!**



**VLADIMIR MARKIN**



# 2.0MK STRATEGY



## 2.1. MISSION AND VISION

### MISSION

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WE PRODUCE METAL PRODUCTS WITH HIGH ADDED VALUE AND PRODUCTS FOR THE FUEL AND ENERGY COMPLEX, WHICH BEST MEET THE NEEDS OF CLIENTS THANKS TO BEST CONSUMER PROPERTIES FOR MONEY RATIO.

### VISION

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- OMK IS A PRODUCER OF METAL PRODUCTS WITH HIGH ADDED VALUE, HAVING THE LOWEST COST TO PRODUCE THESE PRODUCTS AT A COMMENSURABLE DEPTH OF PROCESSING COMPARED TO COMPETITORS IN THE RUSSIAN FEDERATION
- OMK IS THE LARGEST PRODUCER OF STANDARD ARTICLES AND A ONE-STOP SHOP SUPPLIER OF PRODUCTS AND SOLUTIONS FOR THE RUSSIAN FUEL AND ENERGY COMPLEX
- OMK IS THE BEST TEAM OF PROFESSIONALS AMONG METALLURGICAL COMPANIES AND PRODUCERS OF FULLY INTEGRATED SOLUTIONS FOR THE FUEL AND ENERGY COMPLEX IN RUSSIA

## 2.2. PRINCIPAL OMK BUSINESS PHILOSOPHY

### 1. HIGH TECHNOLOGY

- We invest only in the development of high-technology products with high added value and entry barriers.

### 2. RELIABILITY

- Procurement reliability. We purchase raw materials, stock and parts by forging mutually beneficial long-term relations with suppliers offering the best value for money.
- Supply reliability. We enjoy reliable long-term relations with consumers, using the long-term formula pricing system ensuring the company's revenue reliability.
- Production chain fulfillment reliability. We have a predictable order execution chain – from raw materials to delivery of products to consumers with minimum losses within processes.

### 3. SYNERGY

- We invest in businesses which allow us to use the company's accumulated production and knowledge-based capital and interactability between divisions as smoothly as possible.

### 4. OPERATIONAL LEADERSHIP

- Leadership in Russia in terms of costs to produce products deemed essential for us.
- Operating performance is the source for OMK development.

### 5. INVESTMENT LEADERSHIP

- We invest in things that yield marginal profits or cover unacceptable risks.
- We have best specific capital costs per unit of capacity among similar newly commissioned facilities.
- We have best ROI among Russian pipe-making companies.

### 6. OUR PRIORITY IS OMK EMPLOYEES

- Human capital assets are essential.
- First, creating teams of professionals, then investing other resources.

### 7. LIQUIDITY

- We should always be liable for our obligations to creditors.
- We maintain the reliable level of the company's debt/revenue ratio (debt/EBITDA), which will assure reliability of performance of the company's obligations and our appeal to creditors.

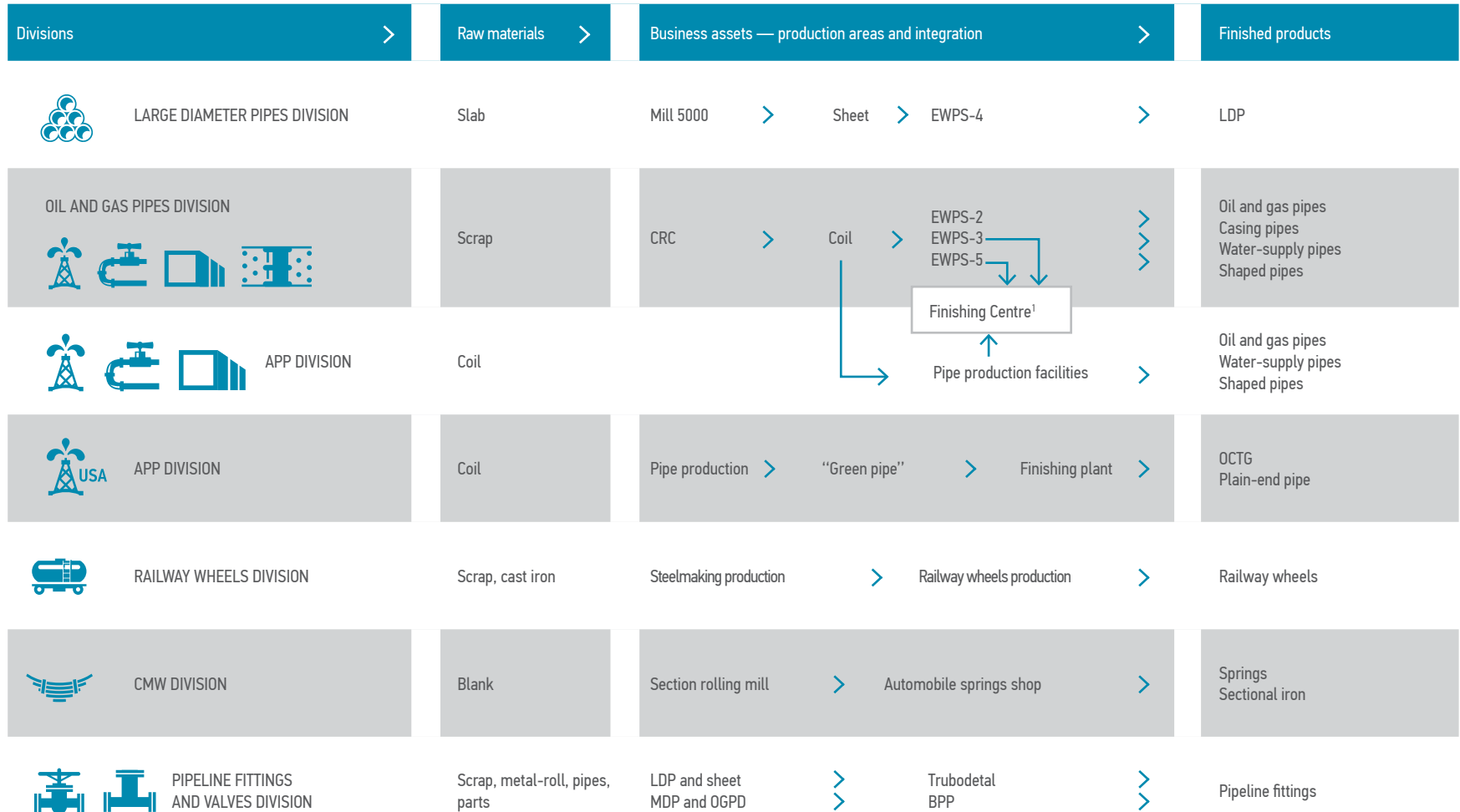
### 8. PRIORITY OF THE BUSINESS MODEL OVER THE PRODUCT

- The product should be augmented with a business model to give answers to the following questions:
  - What is the consumption value of our offer for clients?
  - What makes us different from other suppliers?
  - What does a consumer pay for, what makes the product profitable?
- Key resources necessary for the product, their affordability, quality.
- Key processes, their availability, uniqueness and replicability.
- Competitiveness factors, their continuity.

## 2.3. BUSINESS MODEL

WE STRIVE TO BECOME THE MOST EFFICIENT COMPANY IN RUSSIA'S FERROUS METALLURGY SECTOR, MANUFACTURING PRODUCTS FOR THE PIPE AND METALLURGY MARKET.

OMK'S CURRENT PRODUCTION CHAIN IS SHOWN IN THIS DIAGRAM.



<sup>1</sup> Finishing centre is a perspective OMK project that will allow the company to enter a new segment of casing pipes with diameter over 245 mm.

## 2.4. PRIMARY AREAS FOR OMK DEVELOPMENT

**IN 2014, THE COMPANY DEVELOPED AN UPDATED OMK DEVELOPMENT STRATEGY. THE ULTIMATE AIM OF THIS STRATEGY IS TO BECOME A SUPPLIER OF SOLUTIONS FOR THE ENTIRE VALUE CHAIN IN THE OIL AND GAS INDUSTRY.**

**EFFECTIVE OWN PRODUCTION + COMPLEX SUPPLY = UNIQUE BUSINESS MODEL**

### STRATEGIC DIRECTIONS

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#### 1. INCREASING OPERATING PERFORMANCE

- Developing the production system;
- Debottlenecking;
- Withdrawal of reserves, performance of road maps by divisions.

#### 2. KEEPING POSITION AND REVENUES IN TRADITIONAL SEGMENTS, INCLUDING BY INCREASING THE SHARE OF NON-CONVENTIONAL PRODUCTS AND VALUE-ADDED PRODUCTS

#### 3. EXPANSION OF PRODUCT RANGE TO ENTER NEW PRODUCT SEGMENTS

- Expansion of casing pipes range;
- Entry to tubing strings segment;
- Development of premium connections and high steel grades.

#### 4. BUILDING A NEW BUSINESS MODEL

- Integrating products and enterprises;
- Developing and using synergies.

#### 5. MANAGING CRITICAL RISKS

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**IMPLEMENTING THE AFOREMENTIONED STRATEGY WILL ALLOW OMK TO BUILD A UNIQUE BUSINESS MODEL (A FULLY INTEGRATED SOLUTION BASED ON ITS OWN PRODUCTS) AND TO BECOME A SUPPLIER OF SOLUTIONS FOR THE ENTIRE VALUE CHAIN IN THE OIL AND GAS INDUSTRY.**

## 2.5. CHALLENGES

### IN 2014, THE COMPANY FACED THE FOLLOWING PROMINENT CHALLENGES OF EXTERNAL ENVIRONMENT AFFECTING PERFORMANCE AND FORMATION OF THE STRATEGY:

- 
- Fiercer competition in all key markets;
  - Slumping demand for railway wheels;
  - Drop in the exchange value of the Russian ruble and a related increase in the cost of service of the foreign exchange debt and growing debts in the ruble equivalent, and increase in the company's operating costs;
  - Escalation of inflation;
  - Increase in the key interest rate by CBR and in the lending cost;
  - Restrained supplies of foreign equipment due to western sanctions: on the one hand, it makes it difficult to deliver new projects but on the other hand, it opens the way for import substitution;
  - The positive factor is that OJSC Gazprom started implementing its strategy intended to diversify natural gas buyers and, as a consequence, crash development of the pipeline infrastructure and surge in demand for large diameter pipes and by-products.

## 2.6. STRATEGY IN ACTION

**IN 2014, OMK CONTINUED TO DEVELOP ITS DIVISIONAL MANAGEMENT STRUCTURE, WHICH THE COMPANY HAD SWITCHED OVER TO A YEAR BEFORE. THIS NEW APPROACH ALLOWS THE COMPANY TO FOCUS ON THE KEY AREAS OF ITS BUSINESS, TO OPTIMIZE COSTS AND TO INCREASE THE EFFECTIVENESS OF ITS OPERATING PROCESSES.**

**ALL THE COMPANY'S BUSINESSES CONTINUED TO IMPLEMENT THE OMK PRODUCTION SYSTEM DESIGNED FOR CONTINUOUS IMPROVEMENT AND ADDING VALUE FOR A CLIENT. THE COMPANY FURTHER DEVELOPED ITS NEW BUSINESS MODEL AND STARTED IMPLEMENTING THE COMPREHENSIVE PROJECT "OMK — OIL AND GAS SOLUTIONS."**



### LARGE DIAMETER PIPES DIVISION

**Growth in LDP production in 2014 compared to 2013**

↑ **33%**

Large diameter pipes (LDP) are essential products of the company. OMK is one of the Russian LDP market leaders with a share of 32%.

In 2014, the division delivered such large investment projects as:

- Increasing plate productivity by 25% by installing sliding roller tracks in the Heavy Plate Mill 5000;
- Creating a new external corrosion-resistant coating station.

OMK increased LDP production by one third, the pipes were delivered to the Russian and foreign markets.

The company supplied LDPs for the largest pipeline construction projects: South Stream, Power of Siberia, Bovanenkovo-Ukhhta, Southern Corridor, Zapolyarnoye-Purpe, Kuyumba-Tayshet.

**Achievements:**

- Increasing dispatches to the Russian market;
- Retaining the share and status of a one-stop shop supplier for Transneft;
- Increasing OMK's share in the segment of oil companies;
- Exceeding the annual production plan of the Heavy Plate Mill 5000 by 9.3% above targets.



### OIL AND GAS PIPES DIVISION

**Growth of pipe production volume of the division**

↑ **10%**

In 2014, the division completed renovations at the 2nd Electric Welding Pipe Shop at VSW. The company installed three new tubular mills in the shop, allowing it to increase productivity by 30% and to expand product mix thanks to demand for shaped pipes and pipes with round cut.

**Achievements:**

In 2014, the production volume of the division (oil and gas, casing, water-supply and shaped pipes) was 873,000 tons, which is 10% more than in 2013.

## 2.6. STRATEGY IN ACTION



### RAILWAY WHEELS DIVISION

Annual capacity of the new production line designed to manufacture railway wheels for high-speed trains

**10**<sup>K</sup>  
PIECES

In 2014, there was a considerable contraction of the Russian and CIS railway wheel markets.

Reasons:

- Excess of rolling stock;
- Negative impact produced by predatory supplies of Ukrainian wheels on the standing of Russian companies.

**Achievements:**

- Increase of shipments volume to non-CIS countries;
- The company commissioned the first Russian and unparalleled automated production line designed to manufacture 10,000 all-rolled railway wheels for high-speed trains per year. Investments — 580 mln rubles.



### PIPELINE FITTINGS AND VALVES DIVISION

Growth of fittings production

↑ **40%**

In 2014, the division was actively developed thanks to perfection of synergy of Blagoveshchensk Valves Plant and Trubodetal. A new stage of new business model creation was finished. OMK opened a second engineering and technology centre in Ufa. The Ufa engineering and technology centre develops solutions for new segments, such as modular equipment packages for the oil and gas industry, complex capacitive manufacturing equipment, oil and gas quantity and quality measurement stations.

**Achievements:**

- Targeted investments in development and setup of unique complex products allowed Trubodetal to become a key supplier of mounting components for Russkaya and Kazachya compressor stations of the Southern Corridor.
- BVP retained its leadership in the segments of back-pressure valves and wedge valves and increased shipments to Transneft, Gazprom and Gazpromneft.

## 2.6. STRATEGY IN ACTION



### APP DIVISION

Growth of production volume of APP

↑ 9%

Almetyevsk Pipe Plant produces a wide range of tubular products. In 2014, the plant actively increased the production volumes.

#### Achievements:

Production volume has been increased by 9% compared to 2013, including:

- Shaped pipes, +6%
- Oil and gas and general purpose pipes, +3%
- Water-supply pipes, +23%



### CMW DIVISION

Increase of the Russian market share to

68% (+4%)

In 2014, CMW continued to master new types of springs, including few-leaf springs.

The plant has stopped using its own steel and started using purchased blanks. It helped to reduce the amount of defective goods, coefficient of materials consumption and to increase quality.

#### Achievements:

- CMW's share of the Russian market grew to 68%
- Volvo confirmed CMW as official supplier for one of the Swedish corporation's plants in Kaluga. CMW has solid perspectives to develop partnership relations with other foreign automotive companies.



### NORTH AMERICA DIVISION

In 2014, Houston-headquartered OMK Tube (Texas, USA) formed the key process personnel. The result is that the company considerably increased effectiveness.

#### Achievements:

- Casing pipes reached 90% of capacity.

## 2.7. INVESTMENTS AND R&D

### INVESTMENTS

Investments, bln rub.



#### KEY INVESTMENT PROJECTS OF 2014

- Development of the small and medium diameter pipes segment. We changed mills that produce small diameter pipes in EWPS-2 at VSW and finished modernization of a 203-530 mill in EWPS-3. It will help us to expand supply for oil and gas complexes and construction and increase production volumes;
- Growth of capabilities in large diameter pipes segment. A new line of corrosion-resistant coating for LDPs that will help us to meet the severest coating requirements was launched. Also Heavy Plate Mill 5000 was updated, which increased its productivity in terms of complex plate iron for pipes for the hardest pipeline projects;
- Update of BPP's machines. The project allowed us to begin mastering of the new products such as production trees and ball valves;
- Expansion of railway wheels range. OMK commissioned the first Russian production line designed to manufacture railway wheels for high-speed trains, that will also help to increase the level of localization of Lastochka trains construction.

Due to negative influence of external factors, we had to adjust our investment programme and slow down or suspend a number of projects, including a project for constructing a steel and oil and gas pipe making complex in Chusovoy.

### R&D

R&D, mln rub.



#### PRIMARY R&D AREAS:

- Steelmaking technology improvements
- Rolling technology improvements
- Tube steel recrystallizing process management
- Development of new tube steel grades with special properties
- Development and setup of new types of products with special properties, particularly products intended for severe operating conditions (subsea pipelines, acidic and aggressive environments, permafrost and increased seismic activity)

#### R&D PROJECTS EFFECT:

- Optimizing operating modes of the electric arc steelmaking furnace at CRC
- Optimizing steel alloying schemes at the Heavy Plate Mill 5000
- Optimizing technologies for the production of certain steel grades
- Reducing the cost of liquid steel by using alternative materials
- Developing technologies for pipe production for the South Stream Project from its own metal.

<sup>1</sup> A drop in R&D expenses in 2014 was caused by the increase of our own engineering and technology centres' developments.

# 3. MARKETS REVIEW

RUSSIA AND THE CIS COUNTRIES ARE PRIMARY OUTLETS FOR OMK DUE TO THE STEADY DEVELOPMENT OF THE OIL AND GAS INDUSTRY, ACTIVE HYDROCARBON FIELD DEVELOPMENT AND THE CONSTRUCTION OF NEW DOMESTIC AND EXPORT PIPELINES. THE COMPANY'S BUSINESS IS HIGHLY DIVERSIFIED.

## 3. MARKETS REVIEW



### GLOBAL ECONOMY REVIEW

**IN THE REPORTING YEAR, THE GLOBAL ECONOMY WAS AFFECTED BY MANY NEGATIVE FACTORS, WHICH IMPINGED OMK'S TARGET MARKETS. ACCORDING TO EVALUATIONS BY THE WORLD BANK, THE GLOBAL GDP GROWTH TOTALED 2.6% ONLY, A MINIMUM FIGURE AFTER A NEGATIVE INDICATOR IN THE 2009 CRISIS YEAR.**

The following factors had a telling impact on the global economy:

- Imposition of economic sanctions by western countries against Russia;
- Oil price downturn to a six-year low (below \$50 instead of \$100);
- Growing hydrocarbon consumption;
- U.S. dollar strengthening;
- Armed conflicts in Eastern Ukraine, Africa and Middle East.

The development prospects of the world's metal industry and one of its most important sectors — pipe-making industry — are immediately interconnected with special aspects of economies of the largest regional metal product outlets, especially in developing market economies. Economic growth rates in emerging countries totaled 4.4% in 2014 as reported by the World Bank.

According to the World Steel Association (WSA), the global steel production in 2014 totaled 1.66 bln. tons, which is a 1.2% increase y-o-y, having said that:

- China produced 49.5% of total volumes;
- China, Japan and South Korea — 60%;
- Russia — 4%.

The global capacity utilization reached 76.7% (a decline from 78.4%), which reflects the world's excessive capacity trend.

Growth of global GDP

↑ 2.6%

The world capacity utilization level

76.6%

Increase of the global steel production

↑ 1.2%

# 3. MARKETS REVIEW

## SALES GEOGRAPHY

### AUTOMOBILE SPRINGS

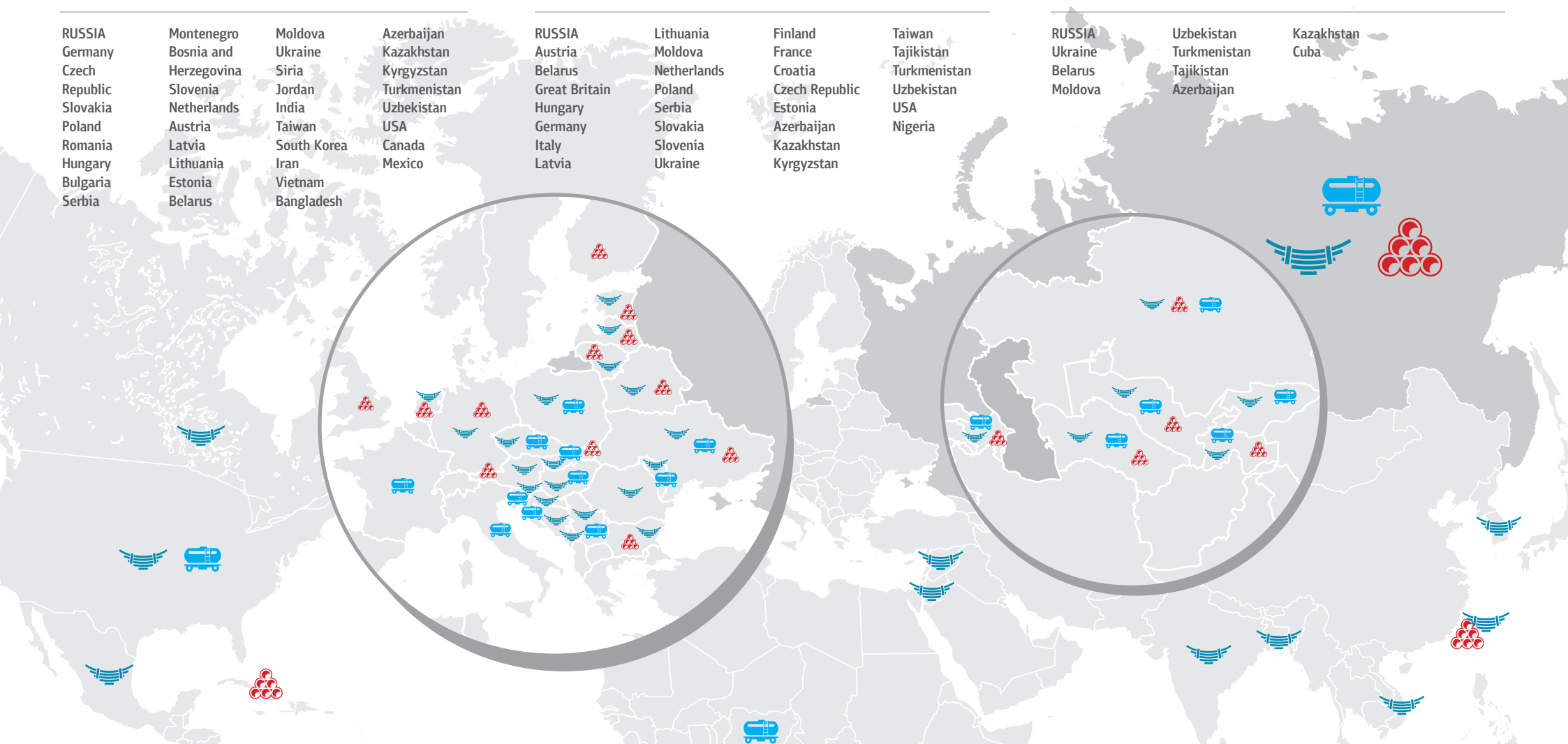
RUSSIA	Montenegro	Moldova	Azerbaijan
Germany	Bosnia and Herzegovina	Ukraine	Kazakhstan
Czech Republic	Slovenia	Siria	Kyrgyzstan
Slovakia	Netherlands	Jordan	Turkmenistan
Poland	Austria	India	Uzbekistan
Romania	Latvia	Taiwan	USA
Hungary	Lithuania	South Korea	Canada
Bulgaria	Estonia	Iran	Mexico
Serbia	Belarus	Vietnam	Bangladesh

### PIPE PRODUCTION

RUSSIA	Lithuania	Finland	Taiwan
Austria	Moldova	France	Tajikistan
Belarus	Netherlands	Croatia	Turkmenistan
Great Britain	Poland	Czech Republic	Uzbekistan
Hungary	Serbia	Estonia	USA
Germany	Slovakia	Azerbaijan	Nigeria
Italy	Slovenia	Kazakhstan	
Latvia	Ukraine	Kyrgyzstan	

### RAILWAY WHEELS

RUSSIA	Uzbekistan	Kazakhstan
Ukraine	Turkmenistan	Cuba
Belarus	Tajikistan	
Moldova	Azerbaijan	



# 3. MARKETS REVIEW

**IN THE INTERNAL MARKET, SEGMENTS IN WHICH OMK OPERATES SHOWED RECTIFIED DYNAMICS IN 2014. DEMAND FOR LARGE DIAMETER PIPES HAS GROWN SIGNIFICANTLY DUE TO MAJOR GAZPROM PROJECTS LIKE THE SECOND STRING OF THE BOVANENKOVO-UKHTA, SOUTH CORRIDOR AND POWER OF SIBERIA, AND ALSO OIL COMPANIES' PROJECTS. IN THE MEANTIME, THE PIPELINE FITTINGS MARKET GREW AND THE COMPETITIVENESS HARDENED AMONG PRODUCERS OF PIPELINE VALVES.**

A forward movement around 5-10% was shown in the oil and gas, shaped, water-supply pipes markets. In the meantime, lower oil prices led to a reduction in drilling and the amount of wells. As a consequence of this, the casing pipes market decreased.

Demand for railway wheels decreased significantly. In addition volumes of springs consumption decreased. It is expected that internal demand for these types of product will continue going down in 2015 due to economic pressures.

# 4. CORPORATE GOVERNANCE



## 4.1. CORPORATE GOVERNANCE APPROACH

OMK strictly obeys statutory requirements and seeks to improve business transparency. As a private company, we analyze the efficiency of management decisions, evaluate internal processes and compare our operations with those of similar-sized public companies, which allows us to improve the corporate governance system in line with the best international and Russian corporate governance standards.

OMK's corporate governance system is built on principles and recommendations set forth in the Corporate Governance Code of the Bank of Russia and relies on the following corporate values:

- Ensuring maximum return on capital;
- Respect for and trust in employees and partners;
- Support for innovation and continuous product quality improvement;
- Maintaining the balance of interests of shareholders, top managers and employees.

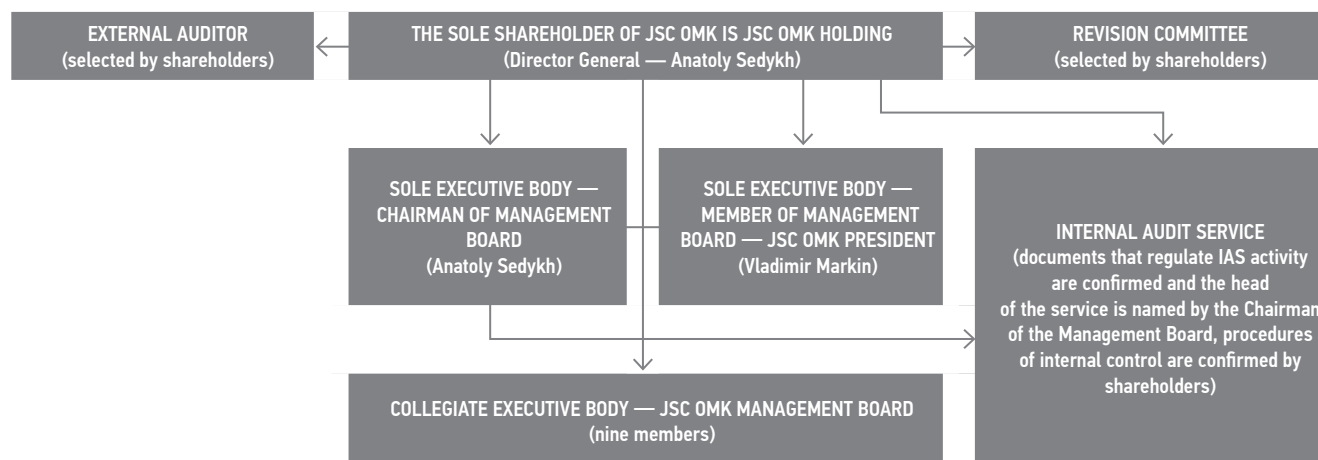
In our operations, we adhere to business transparency, prompt corporate information disclosure, respect for the rights and interests of all participants in corporate relations and the improvement of the company's investment prospects.

OMK has developed a set of policies and functional strategies, which are underlying documents in the corporate governance system of the Group, one of which is the Corporate Integrity Declaration. The major purpose of this document is to ensure that members of the Management Board, executives and other employees of the company uphold high corporate integrity standards, to counter a conflict of interest and to maintain a responsible business.

Furthermore, OMK has enacted a sustainable development policy designed to fulfill the mission, support the company's strategy, streamline and harmonize business in the field of sustainable development in all controlled companies. The document describes key priorities in the field of sustainable development, reporting and business analysis requirements and the assignment of responsibility for policy implementation.

## 4.2. OMK GOVERNANCE STRUCTURE

### CORPORATE GOVERNANCE AT OMK



After new amendments were introduced to the Civil Code of the Russian Federation in 2014, OMK has new possibilities to perfect a corporate governance system. In particular, there are two sole executive bodies independent of each other: the Chairman of the Management Board and the President. They act with full authority both on behalf of JSC OMK and on behalf of all controlled companies, the functions of the sole executive bodies of which have been assigned to the asset management company. Further, managing directors of companies (assets), being regular employees of the asset management company JSC OMK, act on behalf of each controlled company (with full authority). Competences of the Chairman of the Management Board, the President and the Board are established by JSC OMK charter.

OMK Group's plants are being run by the Russian holding company JSC OMK-Holding, which:

- Runs subsidiaries (JSC VSW, OJSC Trubodetal, JSC APP, JSC CMW, PJSC BVP, OMK-Project LLC, JSC OMK) because of major participation in charter capital;
- Provides corporate governance of the main plants of the OMK Group (JSC VSW, JSC OMK-Steel, OJSC Trubodetal, JSC APP, JSC CMW, PJSC BVP, OMK-Project LLC) via managing organization - JSC OMK, which is the sole executive body of all the abovementioned organizations and is a 100% associated company of JSC OMK-Holding. According to corporate regulations of OMK, decisions that are related to competences of participants of corporations' general meetings have to be approved by the Management Board of JSC OMK.

<sup>1</sup> Letter> Bank of Russia of 10.04.2014 N 06-52 / 2463 "About the Code of Corporate Governance".

## 4.3. MANAGEMENT BOARD



**ANATOLY SEDYKH**  
Chairman of the Management Board

Anatoly Mikhaylovich Sedykh was elected Chairman of the Management Board of OMK by the general shareholders meeting on January 29, 2013. Mr. Sedykh has held leading positions in the Company since 1999. Initially, Sedykh headed Vyksa Steel Works and brought the Company out of crisis. Then, he was appointed OMK Director General and Chairman of the Board of Directors of VSW. In 2002, he was elected Chairman of the Board of Directors of the Company. Furthermore, he was OMK President between 2003 and 2006.

Born in 1964, A.M. Sedykh graduated from the Moscow Institute of Steel and Alloys (Ph.D. in Economics).



**VLADIMIR MARKIN**  
President

Vladimir Stepanovich Markin rose from Pipe Finishing Subforeman at Vyksa Steel Works to OMK President, which post he has held since April 2006. Mr. Markin has held leading positions in the Company since 2001. He was Director General of OMK Technical Center LLC, OMK Marketing and Sales Director, Deputy LDP Shop Foreman, Marketing and Sales Manager and Deputy Director General.

Born in 1954, V.S. Markin graduated from the Moscow Institute of Steel and Alloys with a degree in Metallurgical Engineering.



**NATALYA EREMINA**  
Deputy Chairman of the Management Board,  
Vice President

Natalya Konstantinovna Eremina has been OMK Vice President since April 2006. N.K. Eremina joined OMK to take the job as the head of the controlling department. In 2004, she was appointed Director for Corporate Finance and Investor Relations. Before 2001, she was Head of the Interbank Credit Department, Head of the Lending Division and Deputy Chairman of the Management Board of JSCB Metallinvestbank.

Born in 1971, N.K. Eremina graduated from the Faculty of Mechanics and Mathematics, M.V. Lomonosov Moscow State University, with a degree in Mathematics.

## 4.3. MANAGEMENT BOARD



**DMITRY CHERNYSHEV**  
Vice President

Dmitry Vasilievich Chernyshev was appointed OMK Vice President and Director for Research and Strategy in November 2007. He has been working with the company since 2002. He served as Project Manager, First Deputy Director General of OJSC APP and Director for Strategic Development of OJSC VSW. From 1996 to 2001, he held different positions in business development divisions of the Russian industrial companies.

Born in 1974, D.V. Chernyshev graduated from the M.V. Lomonosov Moscow State University and the Academy of National Economy under the Government of the Russian Federation with a degree in Strategic Management.



**EDUARD STEPANTSOV**  
Vice President

Eduard Vladimirovich Stepantsov has been OMK Vice President since December 2008. He joined the Company in 1999 when he was offered the job as OMK Technical Centre Director General. In 2001, E.V. Stepantsov was appointed OMK Deputy Director General and Director for Commercial Matters. From 2003 to 2008, he worked in private investment business.

Born in 1963, E.V. Stepantsov graduated from the Irkutsk Institute of the National Economy with a degree in Economics and Procurement Planning.



**YULIA SHKHIYANTS**  
Vice President, Director  
for Economy and Finance

Yulia Igorevna Shkhiyants was appointed OMK Vice President in February 2013. Yu.I. Shkhiyants joined the Company in May 2007 when she was offered the job as Director for Economy and Finance. Previously, she served as Chief Financial Officer of Greenoak Holdings and Finance Director of Zepter International LLC and KPMG Senior Auditor.

Born in 1975, Yu.I. Shkhiyants graduated from the Peoples' Friendship University of Russia with a degree in Economics.



**SVETLANA NIKOLASHINA**  
Vice President, HR Director

Svetlana Leonidovna Nikolashina has been OMK HR Director since 2003. She was further appointed Vice President in February 2015. From 2002 to 2003, S.L. Nikolashina served as HR Director of OJSC VSW. Previously, Svetlana Leonidovna worked for OJSC Severstal in project teams and as HR Director in subsidiary companies.

Born in 1979, S.L. Nikolashina graduated from the St. Petersburg State University of Engineering and Economics with a degree in Finance and Credit and the Academy of National Economy under the Government of the Russian Federation with a degree of Master of Business Administration in Strategic Management. She also took HRM training courses.



**ALEXANDER IVANOV**  
Director for Business System  
Development

Alexander Nikolayevich Ivanov was appointed OMK Business System Development Director in January 2015. The next month, he became a member of the Management Board. He embarked upon a career in 1997, as he joined CJSC Concern Neftyanoy. Later, from 1998 to 2011, he held key positions in such large industrial companies as Norilsk Nickel, Metalloinvest, EvrazHolding, etc. Before he joined OMK, he was an EY (Ernst & Young) partner charged with increasing operating performance in the metallurgical and oil and gas sectors.

Born in 1974, A.V. Ivanov graduated from the Moscow Institute of Physics and Technology with a degree in Applied Mathematics and Physics.



**ALEXEY MITENKOV**  
OMK IT Director, Director General  
of OMK-Audit LLC

Alexey Vladimirovich Mitenkov was appointed Director General of OMK-Audit LLC in February 2009. Four years later, he was also appointed OMK IT Director. A.V. Mitenkov joined the Company in April 2008 when he was offered the job of Deputy Director for Economy and Finance. From 2000 to 2008, he worked at the internationally acclaimed audit firm KPMG.

Born in 1977, A.V. Mitenkov graduated from the Finance Academy under the Government of the Russian Federation with a degree in Finance and Credit.

## 4.4. MANAGEMENT BOARD'S EFFICIENCY INCREASE



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**THE MEMBERS OF THE MANAGEMENT BOARD OF OMK ARE ACCOMPLISHED PROFESSIONALS WITH LONG-TIME EXPERIENCE BOTH IN THE COMPANY AND IN THE INDUSTRY IN GENERAL. THEIR COMPETENCES AND SKILLS SHAPE THE COMPANY'S BUSINESS BOTH IN THE SHORT AND LONGER TERM.**

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The members of the Management Board have been working throughout the year in accordance with individual development plans, which were focused on improving the overall performance of management teams, transforming the role of a supervised function in business and translating changes to employees, effective presentation, mentoring, etc.

In 2014, cross-cultural communications became the basis for competence development of members of the Management Board because the company needs to conduct business communications with the USA and to address the corporate culture of the enterprise and the North American region. The workshop on cross-cultural communications, which was attended by the company's executives, helped them understand and acknowledge a variety of key insights into misunderstandings between different management cultures and to consequently reduce their impact on the overall performance of OMK Tube.

In 2014, the members of the Management Board of OMK took an active part in the training and development of the company's employees: creating and maintaining internal training, doing lecturing, sharing experience with colleagues.

## 4.5. RISK MANAGEMENT

**OMK OPERATIONS HINGE UPON A VARIETY OF FACTORS, GIVING RISE TO COMPREHENSIVE RISKS. WE, JUST AS MUCH AS ALL LEADING PRESENT-DAY COMPANIES, SEEK TO MINIMIZE THEM.**

### INDUSTRY AND FINANCIAL RISKS

#### INDUSTRY'S CYCLICALITY

The iron and steel industry is cyclical. The business performance of companies depends upon macroeconomic changes both in the Russian and global economies. The major consumers of OMK's tubulars are Russian oil and gas companies. They are applied in a variety of spheres, such as the repair and operation of existing pipelines, construction of new pipelines and field development.

Volumes of construction of oil and gas pipelines ride on the dynamics of global energy prices. Dwindling oil prices can lead to contraction in demand on the part of oil and gas companies. However, most large projects enjoy government guarantees, which lessen such risks.

By far the majority of pipelines are worn-out, therefore repair- and operation-related pipe consumption is not strictly dependent on price levels in worldwide mineral markets, which also lessens such risks.

#### GROWING COMPETITION IN THE INDUSTRY

A negative impact on the company's performance can facilitate fiercer competition on the part of Russian and foreign producers. OMK has a few stable strategic consumers. A refusal of one or more of them to renew supply contracts can be detrimental to business performance. In order to mitigate the aforementioned risks, the company ensures high quality of products, controls end-to-end expenses on medium and small diameter pipe production thanks to its Casting and Rolling Complex and end-to-end expenses on large diameter

pipe production thanks to its Heavy Plate Mill 5000. The cutting-edge and high-technology equipment allows the company to produce a wide mix of pipes, railway wheels, springs, etc.

#### POSSIBLE CHANGES IN PRICES FOR RAW MATERIALS, ELECTRIC ENERGY, PRODUCTS

The metal industry is raw material intensive and energy consuming. A sharp rise in prices for raw materials can have a profound effect on the financial standing of OMK businesses. There is also a risk of electricity tariff escalation or electricity market liberalization followed by an upsurge in prices. In order to mitigate this risk, OMK is working towards energy saving and the decrease in production-related consumption indices.

#### COUNTRY AND REGIONAL RISKS

OMK businesses operate in different regions, which is why the effects of a specific region on the company's performance can be considered negligible. Sales of products are non-regional. However, OMK, in general, is exposed to all the risks related to political and economic situation in the country.

In 2014, Russia faced tougher geopolitical pressure and higher country risks, which affected both the company's operations in Russia and its relations with its international partners.

The regions in which OMK businesses operate are neither distant nor hard-to-reach. Consequently, it is highly unlikely that transport connection will be disrupted. The probability of natural disasters is low as well. Therefore, geographic risks are negligible.

#### FOREIGN EXCHANGE RISKS

OMK is a participant in foreign trade activity and has assets and considerable liabilities in foreign currency for which reason, in 2014, foreign exchange risks battered the company's business performance. Consequently, OMK pursues a policy of restricting the extent of foreign exchange exposure in order to mitigate these risks.

#### RATE RISKS

OMK businesses are widely using borrowings to deliver investment projects and to fund its floating capital. Consequently, the growing interest rates adversely affected the company's business in 2014 due to debt servicing cost increases.

For that reason, OMK adheres to the harmonized loan control policy intended to diversify the debt profile, ensuring minimization of losses from growing interest rates on either of the sources of borrowed funds.

## 4.5. RISK MANAGEMENT

### COMPLIANCE RISKS

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#### EXCHANGE CONTROL, CUSTOMS REGULATIONS AND DUTIES RISKS

OMK is barely affected by direct risks however they might arise from or in connection with changes in tax regulations, customs control rules and customs duties, as most operations of the company have nothing to do with foreign trade transactions.

#### TAX REGULATORY RISKS

Today, the Russian tax legislation is being reformed, which gives place to risks that the government might introduce new taxes, increase existing taxes or amend tax administration procedures producing a chilling effect on OMK operating results. The tax legislation framework is also marked by the fact that there are no consistent practices of its interpretation and application, for which reason tax authorities might raise additional tax payment demands and impose additional penalties. OMK applies a conservative approach to interpretation of tax laws and pays any and all accrued taxes and levies in full in due time mitigating risks of potential claims that might be lodged by tax authorities.

#### LICENSING REQUIREMENTS RISKS

OMK core business is exempt from licensing, as the company does not use any such facilities, which turnover is limited. Consequently, the aforementioned risks cannot materially affect operating activities.

#### LAW OF PRACTICE RISKS

The Russian judicial system has no consistent approach to the settlement of the same disputes, since court rulings are not based on precedents. The existing law of practice can only exert indirect influence on the settlement of a specific dispute. Then again, the supreme judicial authorities of the Russian Federation take steps to harmonize law enforcement practice by issuing judicial acts, which are recommended for application by lower-level courts.

# 5. OPERATIONAL RESULTS



## 5.1. FINANCIAL RESULTS

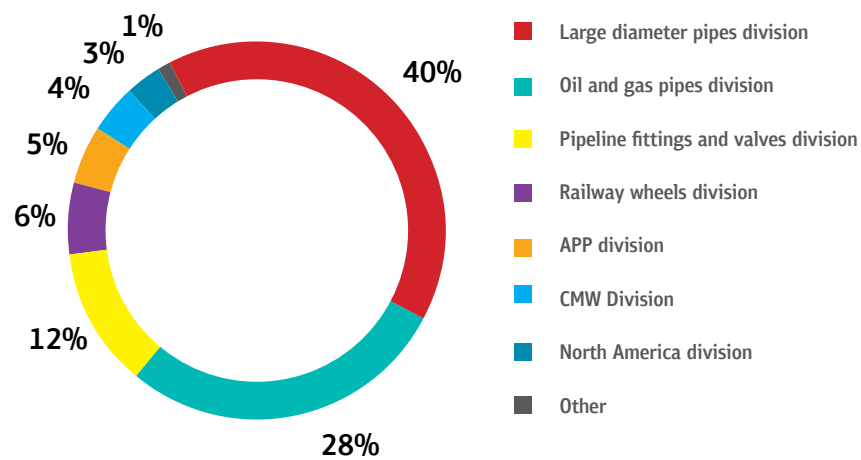
### REVENUE, BLN RUB.



### NET PROFIT, BLN RUB.



### DISTRIBUTION OF REVENUES



### EBITDA, BLN RUB.



## 5.2. VICE PRESIDENT, DIRECTOR FOR ECONOMY AND FINANCE STATEMENT

**DEAR FRIENDS, COLLEAGUES AND PARTNERS,**

**THE LAST YEAR PROVED TO BE ONE OF THE MOST DIFFICULT YEARS IN THE MODERN HISTORY OF OMK. THE RECIPROCAL SANCTIONS IMPOSED BY RUSSIA AND THE WEST, DWINDLING OIL PRICES AND RUBLE EXCHANGE RATE FOLLOWED BY MULTIPLYING INTEREST RATE INCREASES FORCED THE NATIONAL ECONOMY TO FACE REAL CHALLENGES. OMK ALSO FOUND ITSELF UP AGAINST THE WALL.**

The crisis developments in the economy led to a massive increase in capital outflow from Russia. The domestic market faced a deficit in foreign exchange as companies bumped up against the real shortage of money. The Central Bank of Russia raised the key interest rate to 17%, which pushed up corporate loan interest rates to 25-30%.

Notwithstanding these difficulties, the year 2014 turned out to be successful for our company, from the viewpoint of operating performance, although it did not make it to the level of better years in the recent past. We secured a surge of revenue (+23% y-o-y) and EBITDA (+22%) owing to an increase in efficiency, growth in orders for tubulars (chiefly in the segment of our key product (large diameter pipes)) and the development of a packaged proposal for clients from the fuel and energy segment (by further building our innovative range of fittings and valves). The decline in production of railway wheels caused by the market disruption in Russia and CIS countries did not have any considerable impact on our financial performance amidst these factors. ►►

Revenue growth in 2014

↑ **23%**

EBITDA growth

↑ **22%**

Yulia Shkhiyants, Vice-President,  
Director for Economy and Finance



## 5.2. VICE PRESIDENT, DIRECTOR FOR ECONOMY AND FINANCE STATEMENT



Net debt/EBITDA ratio was reduced

**3.1 → 2.5**

Share of short-term borrowings in the company's net debt profile fell substantially

**30% → 7%**

However, we have ended the year 2014 with consolidated losses of 13 bln rubles and we did not show any net profits for the first time in the modern history of the company. These losses were caused by two key factors:

- At the end of the last year, the oil price downturn triggered a sharp crash in our national currency. The ruble-dollar rate was down to less than half of what it was: 33 rubles at the start of year against an historic low of almost 68 rubles in December. Consequently, OMK had to re-evaluate its loan commitments nominated in foreign currency arising from the delivery of large investment projects — construction of the LDP line, the Heavy Plate Mill 5000 and the Casting and Rolling Complex. The company's leveraged portfolio reached 93 bln rubles as of the end of 2014, while the share of foreign currency loans in the portfolio rose to 66% (with 17% accounted for commitments in U.S. dollars and 49% in euros). As a result, the loan re-evaluation caused by translation differences led to OMK's losses of 16 bln rubles.
- The U.S.-based asset OMK Tube was partially depreciated (given the negative market scenario – a landslide in hydrocarbon prices, a decline in production volumes and the number of drilling rigs in the USA) and off-market property, plant and equipment of Chusovoy Metallurgical Works were decommissioned in the company's accounts and records. These steps led to an additional loss of 5.4 bln rubles.

However, the company improved its financial stability despite negative net profits and debts growing due to translation differences: net debt/EBITDA ratio declined from 3.1 to 2.5, while the share of short-term borrowings in the company's net debt profile fell substantially from 30% to 7%. We believe that we should employ all internal reserves and exercise a rather conservative policy in the sphere of investments and borrowings in the capital market despite generally positive figures in 2014 and the good figures expected in 2015.

**WE STILL FEEL OPTIMISTIC ABOUT 2015. GIVEN THE STABILIZATION OF THE NATIONAL ECONOMY, RUBLE STRENGTHENING AND ADJUSTMENTS OF TRANSLATION DIFFERENCES AND THE ANTI-CRISIS EFFORTS WE TAKE, WE HAVE GOOD CHANCES TO GET POSITIVE NET PROFITS, FURTHER INCREASE EBITDA AND KEEP THE COMFORTABLE NET DEBT/EBITDA RATIO IN 2015.**

**YULIA SHKHIYANTS**

## 5.3. OPERATIONAL RESULTS IN 2014



LARGE  
DIAMETER PIPES

↑ **1,058** <sup>K</sup>  
TONS (+33%)



RAILWAY  
WHEELS

↓ **450** <sup>K</sup>  
PIECES (-30%)



SMALL  
AND MIDDLE DIAMETER PIPES

↑ **1,008** <sup>K</sup>  
TONS (+6%)



CASING  
PIPES

↓ **311** <sup>K</sup>  
TONS (-6%)



WATER-SUPPLY  
PIPES

↓ **165** <sup>K</sup>  
PIECES (-9%)



OIL AND GAS  
AND GENERAL PURPOSE PIPES

↑ **382** <sup>K</sup>  
TONS (+17%)

## 5.3. OPERATIONAL RESULTS IN 2014



SHAPED PIPES

↑ **150** <sup>K</sup> TONS (+28%)



PIPELINES VALVES

↓ **6.4** <sup>K</sup> TONS (-8%)



OMK TUBE

↑ **57** <sup>K</sup> TONS (+46%)



WIDE SHEETS

↑ **708** <sup>K</sup> TONS (+30%)



ROLLED PRODUCTS  
(COILS AND SHEETS)

↑ **1,029** <sup>K</sup> TONS (+17%)



AUTOMOBILE  
SPRINGS

↓ **55** <sup>K</sup> TONS (-7%)



PIPELINE  
FITTINGS

↑ **19** <sup>K</sup> TONS (+40%)

## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### LARGE DIAMETER PIPES DIVISION

«The increase in production of pipes and wide sheets is caused by the growth in volume of deliveries for OMK's strategic partners, largest Russian oil and gas companies».

Alexander Barykov,  
LDP Division Director



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### LARGE DIAMETER PIPES DIVISION

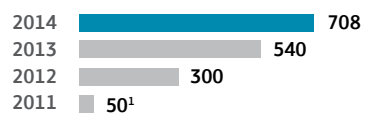
#### LDP production growth

↑ **33%**

#### Amount of LPDs produced in 2010-2014, thousand tons



#### Volume of wide sheet production of Heavy Plate Mill 5000 in 2011-2014, thousand tons



<sup>1</sup> Heavy Plate Mill was launched in 2011

#### Products:

- Wide steel sheets for LDP production, machine building, shipbuilding, development. Width — 900-4,850 mm. Thickness — 7-150 mm. Maximum capacity — up to 1.2Mt/y;
- Longitudinal, single-joint electric-welded pipes for main oil and gas pipelines with internal and external anti-friction or corrosion-resistant coating. Steel grade — up to X80. Diameter — 508-1,420 mm. Maximum capacity — up to 2MT/y.

OMK produced over 1Mt of large diameter pipes for the first time in three years. In 2014, production volumes rose by 33% thanks to the demand for LDP supplies for strategic projects:

- Gazprom — Bovanenkovo-Ukhta, Southern Corridor, Power of Siberia;
- Transneft – Kuyumba-Tayshet and repairs;
- Lukoil, Gazpromneft, Rosneft, Sibur.

In 2015, we expect that large diameter pipe production will increase. Most of these will be supplied to the Russian market for the projects delivered by Gazprom (Southern Corridor, Power of Siberia), Transneft (repairs and projects) and oil companies.



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### RAILWAY WHEELS DIVISION

«The Decrease in railway wheels production in 2014 is caused by an overall reduction in demand and the negative impact of dumping deliveries of Ukrainian wheels on Russian companies' standings».

Alexander Volkov,  
Railway Wheels Division Director



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS

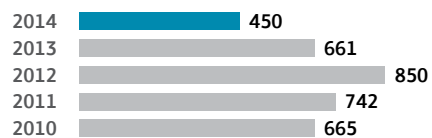


### RAILWAYS WHEELS DIVISION

Decrease  
in railway wheel production

↓ 33%

Volume of railway wheels produced in 2010-2014,  
thousand wheels



Products:

- All-rolled railway wheels and wheel centres for freight and passenger trains, including Lastochka (Desiro RUS) higher-speed trains. Diameter — 710-1,098 mm., 140 standard sizes. Maximum capacity — 850,000 wheels per year.
- All-rolled railway wheels for higher- and high-speed trains. Maximum capacity — 10,000 wheels per year.

In 2014, there was a decline in demand for railway wheels across Russia and whole «1520» space. The excess of wagons in the railway network scaled back the demand in the wagon building segment. The introduction of regulations to renew the life of freight cars that contributed to mass decommissioning of old cars released many used, yet serviceable, wheels, which heavily affected the repair segment.

As a result, VSW reduced railway wheel production by one third — to 450,000 wheels.



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### OIL AND GAS PIPES DIVISION

«Despite the strengthening of competitiveness,  
we achieved growth in pipe production».

**Oleg Fedotov,**  
OGP Division Director



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### OIL AND GAS PIPES DIVISION

Growth in pipe production by the OGP division

↑ **10%**

Volume of small and medium diameter pipe production, including pipes with 508 and 530 mm diameter, in 2010-2014, thousand tons



Volume of production of coils and sheets at CRC in 2010-2014



Products:

- Hot-rolled steel flat products in coils and sheets for making small and medium diameter pipes and applied in shipbuilding, machine building, development. Width — 30-1,750 mm. Thickness — 1-12.7 mm. Maximum capacity — up to 1.2Mt/y.
- Longitudinal, single-joint electric-welded pipes for laying oil and gas pipelines, product pipelines, water pipelines, heating systems, oil and gas field infrastructure development. Steel grade — up to X70. Diameter — 159-530 mm. Wall thickness — 4-12.7 mm. Maximum capacity — up to 1Mt/y.
- Casing pipes for oil and gas field infrastructure development and well construction. Diameter — 140-245 mm. Wall thickness — 5.2-11.1 mm. Maximum capacity — up to 400,000t/y.

In 2014, the overall production of the oil and gas pipes division totaled 873,000 tons, which is up by more than 10% y-o-y, despite the launch of products made by new plants and crisis developments in the Russian economy.

OMK boosted its presence in the Russian oil and gas pipes sectors with additional qualities. The company kept its share in the casing pipes market at the 2013 level and increased volume of production of pipes with high added value.



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### PIPELINE FITTINGS AND VALVES DIVISION

«Our division plays an important role in the realization of the OMK strategy to create a complex supply solution for oil and gas companies».

**Igor Voronin,**  
Pipeline Fittings and Valves Division Director

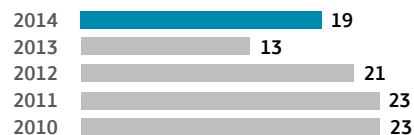


## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### PIPELINE FITTINGS AND VALVES DIVISION

Volume of pipeline fittings produced  
in 2010-2014, thousand tons



Volume of pipeline valves produced  
in 2010-2014, thousand tons



Products:

- Pipeline nodes, cold and hot forming pipeline bends, stamp-welded fittings: T-bends, reducers, ends. They are applied in construction of main pipelines, delivery measuring and pumping stations, oil and gas refineries, nuclear and thermal power plants. Diameter — 57-1,420 mm. Maximum capacity — up to 30,000t/y.
- Wedge shaped cast valves, swing check butterfly gate valves, switching units, pressure safety valves assemblies, X-mas trees, shut-off valves, etc. The scope of application: oil and gas production, processing, heat-and-power engineering. Diameter — 25-800 mm. Maximum capacity — up to 13,900t/y.

In 2014, Trubodetal and Blagoveshchensk Valves Plant, which are combined into the pipeline fittings and valves division, have expanded their product ranges by mastering new types of products, perfected the quality and raised effectiveness.

Trubodetal has mastered pipeline fittings for ultra-high pressure, bends in heat insulation with a heating system (skin effect) and others. BVP started producing X-mas trees and ball valves.



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### APP DIVISION

«Almetyevsk Pipe Plant shows forward dynamics in production: in 2009 we produced 149 thousand tons of pipes and, in 2014, the total reached 247 thousand tons».

**Alexander Tokarev,**  
Managing Director at Almetyevsk Pipe Plant



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### APP DIVISION

Growth of APP pipe production volume  
in 2014 compared to 2013

↑ 9%

Volume of APP pipe production in 2010-2014,  
thousand tons

2014	247
2013	226
2012	215
2011	188
2010	175

Products:

- **Utilities pipes** — electric-welded, single-joint pipes, including pipes with outer polyethylene coating. The scope of application — oil and gas industry, water supply and heating, development, agriculture. Diameter — 17-219 mm. Wall thickness — 1.5-8 mm. Length — 6-12 m.
- **Shaped square tubings.** They are applied in machine building, tractor construction, development, furniture production and other industries. Cross-section — 15x15-18x180.

In 2014, Almet'yevsk Pipe Plant produced 96,000t of oil and gas pipes, 83,000t of shaped tubing and 68,000t of utilities pipes. The overall production of tubulars rose by 9% y-o-y.



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### CMW DIVISION

«Agreement with Volvo is an important achievement of the Chusovoy Metallurgical Works in 2014».

**Sergey Filip'ev,**  
Managing Director at CMW



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS

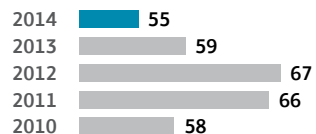


### CMW DIVISION

Increase of CMW share  
in the Russian market

↑ **68%** (+4%)

Volume of spring production in 2010–2014, thousand tons



Products:

- Over 400 standard sizes of springs of the latest designs, including parabolic ones and levers for air castors. CMW is the supplier to key truck producers both in Russia (KamAZ, including KamAZ-Master racing team, Ural, UAZ, NefAZ, etc.) and abroad (Volvo). Maximum capacity — 90,000t/y.

In 2014, CMW produced 55,000 tons of springs, which is 7% lower than in 2013. Despite the unstable situation in the automotive industry, the plant remains Russia's leader in the springs market. CMW supplies springs for all key automobile production lines in the country.

In 2014, Volvo has confirmed CMW as an official supplier of springs for one of the Swedish corporation's plants in Kaluga.



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### NORTH AMERICA DIVISION

«In 2014, we formed the key process personnel “backbone”, which helped to increase productivity and quality».

**Alexey Gostev,**  
North America Division Director



## 5.4. OPERATIONAL RESULTS IN 2014. DIVISIONS



### NORTH AMERICA DIVISION

Volume of production in 2013-2014,  
thousand tons



Growth of production volume

↑ **46%**

Products:

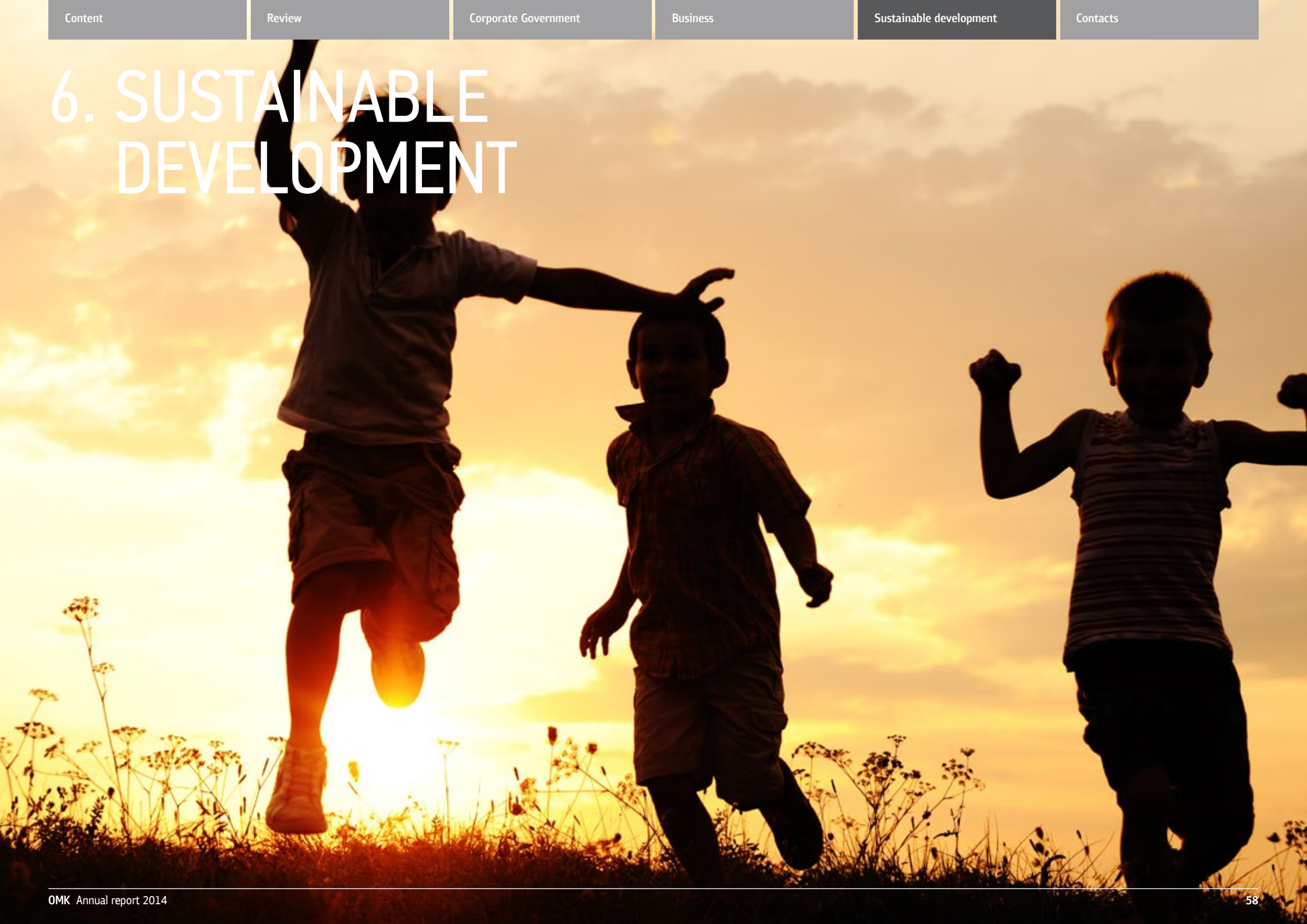
- Casing and tubing pipes for oil and gas field infrastructure development and well construction. Diameter — 60-178 mm. Wall thickness — 4.8-12.7 mm. Maximum capacity — up to 200,000t/y.

In 2014, OMK's American asset, the OMK Tube plant that was launched in 2013 in Houston, Texas, USA, continued working to achieve its production capacity. In the report year, the plant has produced 57,000 tons of pipes, which is 46% more than in 2013.

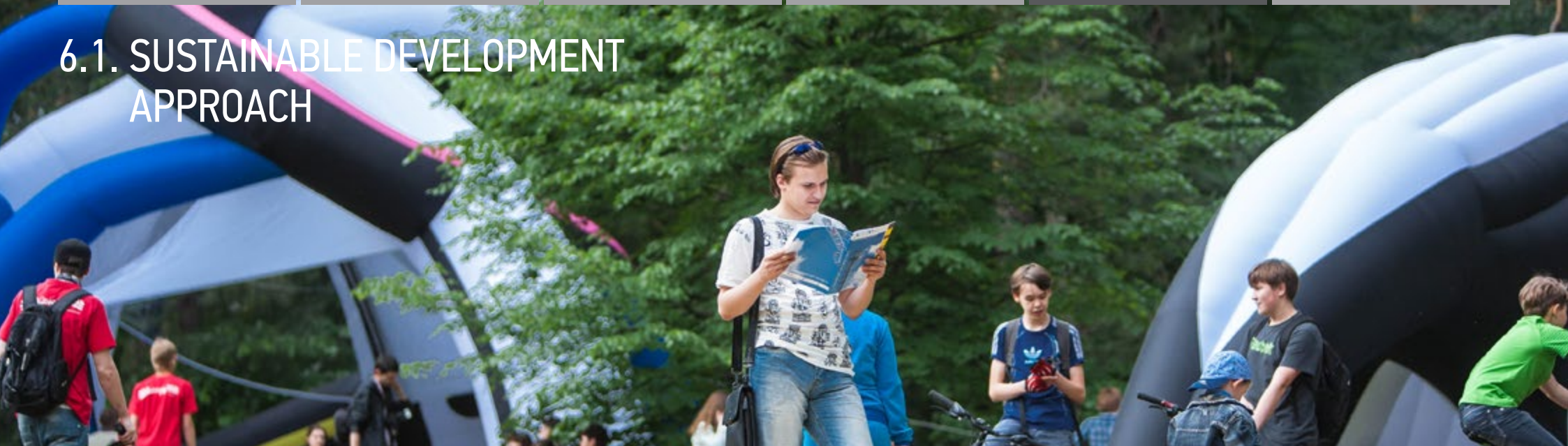


<sup>1</sup> OMK Tube was launched in 2013

# 6. SUSTAINABLE DEVELOPMENT



# 6.1. SUSTAINABLE DEVELOPMENT APPROACH



## OUR APPROACH TO SUSTAINABLE DEVELOPMENT

The company is geared to best international corporate social responsibility standards and seeks to integrate its principles in any and all business processes and lines in order to improve operating efficiency. OMK's operating principles are accountability, transparency, ethical conduct, respect for the parties concerned, compliance with the rule of law, observance of international standards of conduct and human rights.

## PERSONNEL

We seek to make work for OMK to help our employees fully unlock their potential. We create safe and comfortable working conditions for each employee. As the Company enjoys rapid growth, it makes prospects for professional and career advancement real. In order to ensure mutually beneficial partnership and observance of labour and employment rights, we actively support and develop a social dialogue with employees and their representatives.

## PARTICIPATION IN COMMUNITIES' LIFE AND THEIR DEVELOPMENT

We appreciate the value and importance of development of local communities. The Company is a responsible employer in all of its operating areas, as it invests in implementation of local initiatives in sports and healthy lifestyle, culture and arts, education, development of professional skills, environmental programmes and projects on landscaping and public amenities.

## ENVIRONMENT

We create conditions for safe work for the personnel and contractors and ensure environmental safety of the Company's products, as we follow the precaution principle. We implement brand new, safer management approaches, technologies and equipment to minimize environmental impact. The Company invests in conservation efforts, prevents accidents and raises readiness for them, develops responsible use of resources and takes steps to mitigate climate changes and adapt to them.

## CLIENT RELATIONS

We create safe and reliable products and guarantee their quality in line with Russian and international standards. Through interaction with consumers, the Company adheres to health protection and safety precautions, open access of consumers to objective information to take weighted managerial decisions, protects against unfair or deceptive advertising or labeling.

## HUMAN RIGHTS

OMK understands the paramount importance of respect for human rights in all of its operations areas. We are responsible for taking actions with due caution to promptly identify, prevent and assume measures regarding actual or possible impact on human rights.

## RESPONSIBLE APPROACH TO BUSINESS

The company strictly abides by statutory requirements, adheres to ethical conduct in interaction with internal and external parties concerned, follows accountability and transparency in its operations. OMK takes efforts to prevent corruption and ensure responsible engagement in politics, maintain fair business practices and respect for proprietary rights.

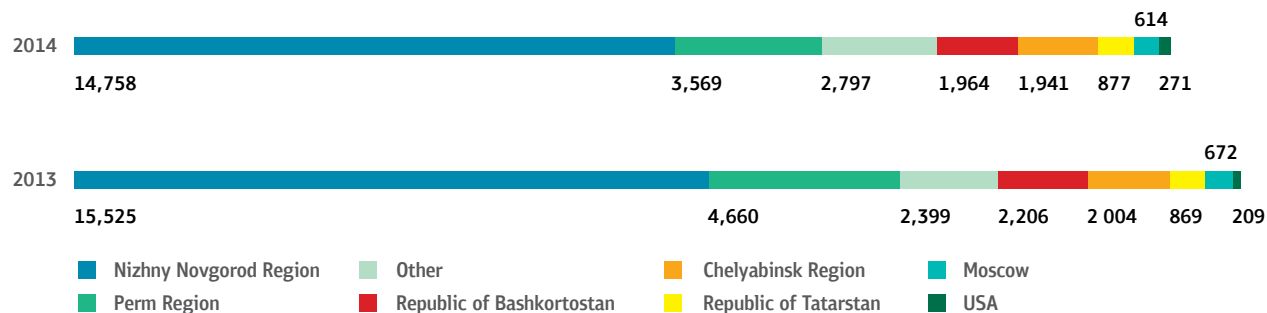
## 6.2. HUMAN RESOURCES

IN 2014, THE COMPANY'S TOP PRIORITY IN HR MANAGEMENT WAS TO BUILD AND DEVELOP AN ACTIVE OCCUPATIONAL ENVIRONMENT, I.E. CONDITIONS CONDUCIVE TO INITIATIVE AND ENGAGEMENT OF EMPLOYEES.

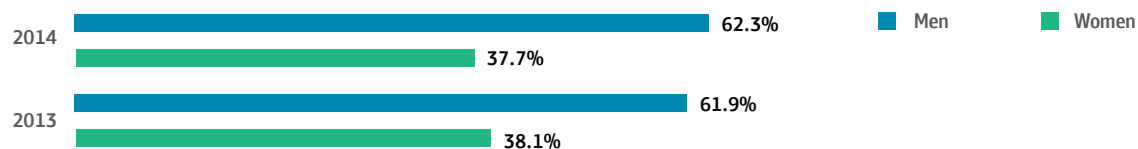
AS OF DECEMBER 31, 2014, THE HEADCOUNT OF OMK COMPANIES TOTALED 27,021 EMPLOYEES.

### 6.2.1. KEY FIGURES

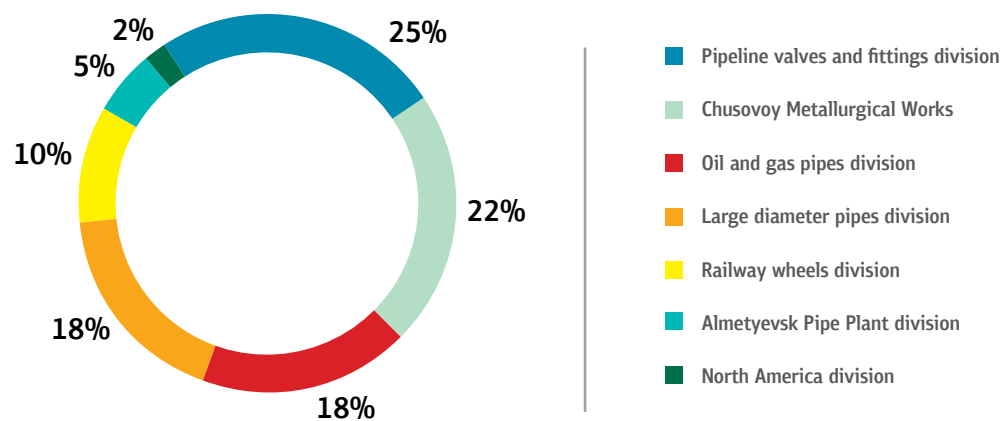
The average headcount declined 6% y-o-y



In 2014, the gender headcount structure remained substantially unchanged y-o-y

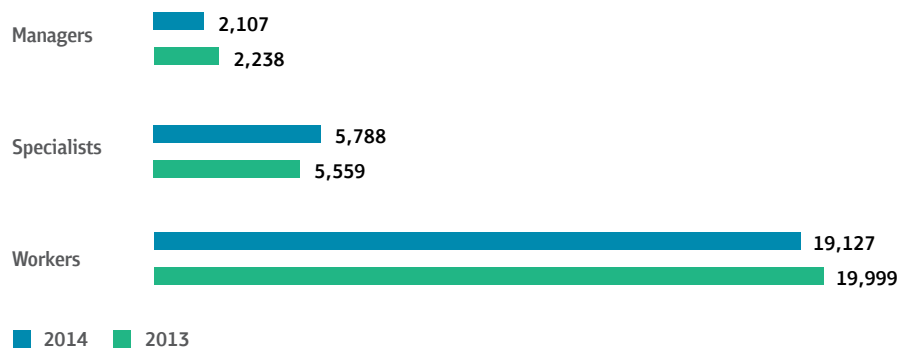


In 2014, the gender headcount structure remained substantially unchanged y-o-y

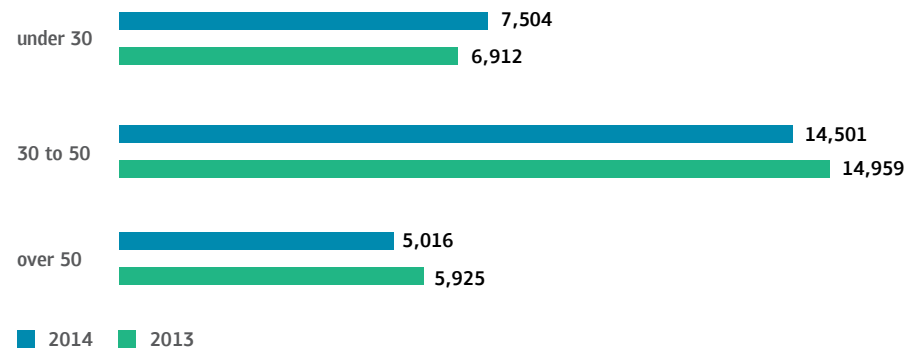


## 6.2.1. KEY FIGURES

The headcount as broken down by personnel categories



The headcount as broken down by age



Payroll in 2013-2014, mln rubles



Social spending, mln rubles



## 6.2.1. KEY FIGURES

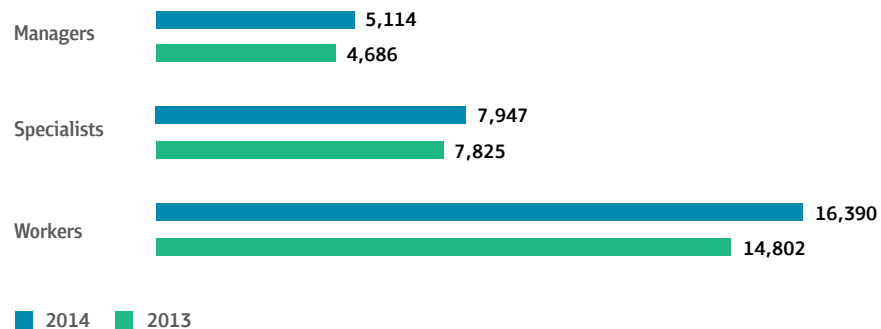
Total training hours in 2013-2014, man courses



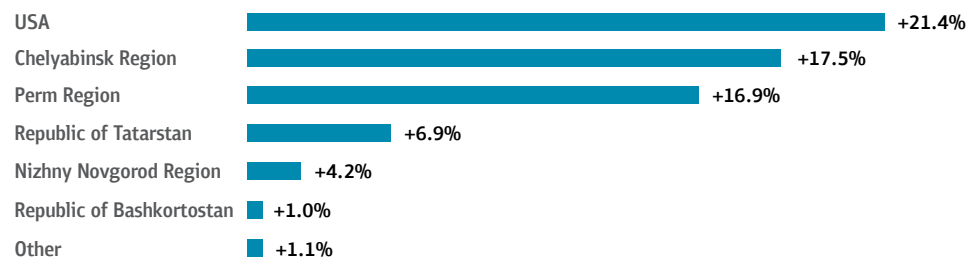
Employee Engagement Index<sup>1</sup>



Training hours in 2013-2014 as broken down by personnel categories, man courses

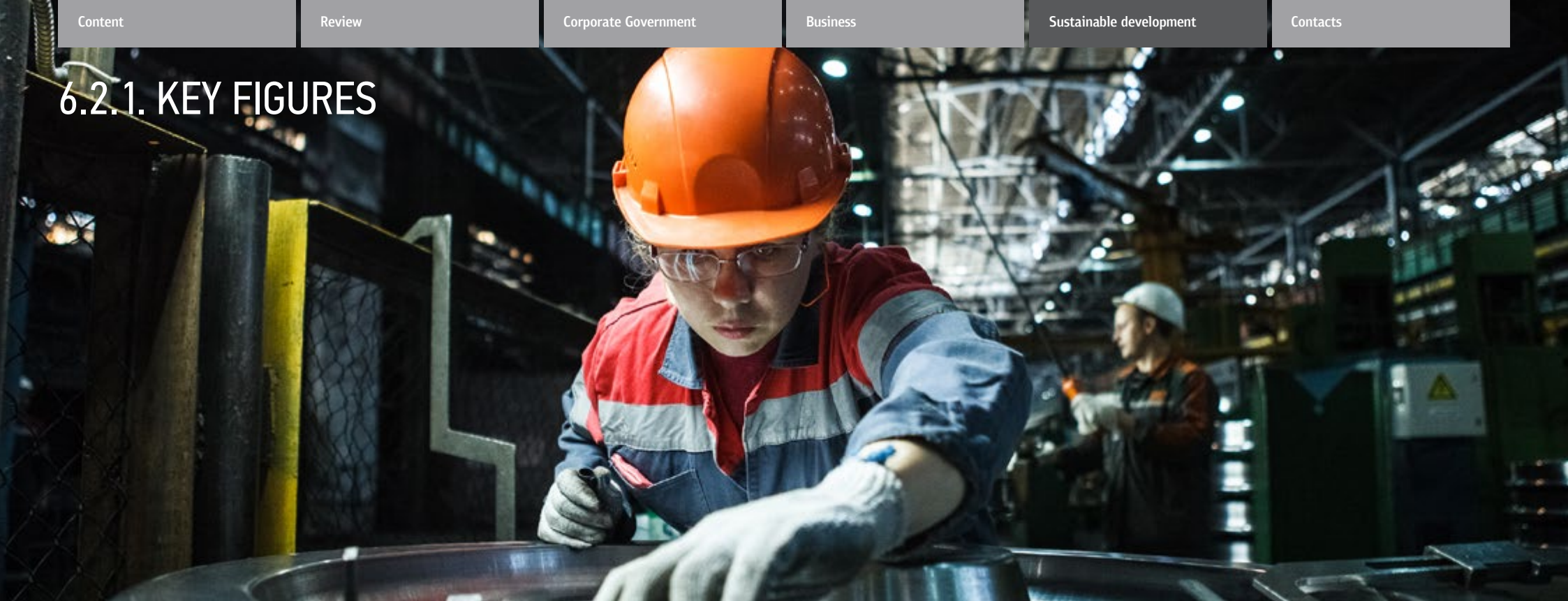


Average pay change as broken down by regions in 2014 y-o-y

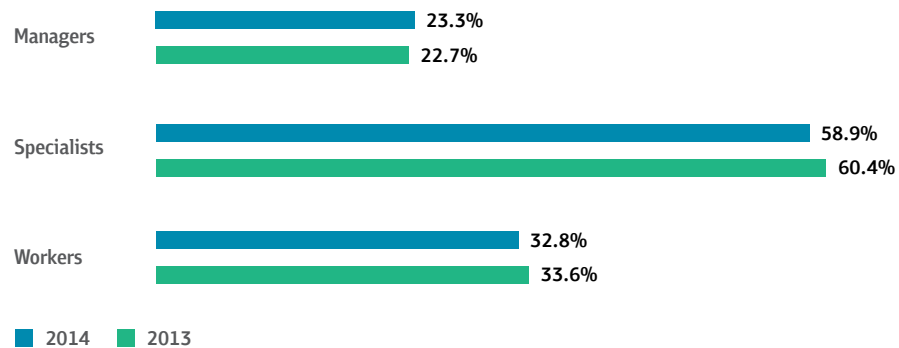


<sup>1</sup> According to AON Hewitt methodology

## 6.2.1. KEY FIGURES



Females as broken down by personnel categories



Females as broken down by personnel age categories



## 6.2.2. HR MANAGEMENT APPROACH

Today, the iron and steel industry is one of the most highly competitive in the global economy, requiring everyone to show commitment, interest, thoughtfulness, new proposals and performance evaluation. Building an environment for active and intelligent participation of employees in the company's life assumes special meaning under these circumstances. They found their way into the human resources management strategy approved in 2014. The strategy, among other things, entrenched the integration of HR processes and the concept of the partner organizational structure of the HR service.

OMK is working for partnership as the pivotal form of communications and HR management through HR partners, who become HR consultants and advisors to executives, understanding business needs, offering expert solutions to evolving problems, sharing the responsibility for results and promptly reacting to changes in the external and internal environment.

The Personnel Committee, a collegiate advisory body for the Chairman of the Management Board of OMK created in 2013, plays a major role in the efficient management of the company.

In 2014, the HR Department and the Personnel Committee were focused on such matters as: personnel spending optimization and increase in labour productivity, development of the annual cycle of target setting and appraisal procedure, development of the personnel target groups, development of incentive systems and labour management. Managing personnel engagement and building an active occupational environment have been important topics this year. In general, HR management efforts were hinged on three priorities: efficiency, competence and engagement.

### 2014 PRIORITIES AND KEY COMPLETED HR MANAGEMENT PROJECTS

EFFICIENCY	COMPETENCY	ENGAGEMENT
<p>Optimization of the OMK organizational structure:</p> <ul style="list-style-type: none"> <li>• <b>Decrease in the span of management;</b></li> <li>• <b>Headcount management;</b></li> <li>• <b>Creating of new integrated functions.</b></li> </ul> <p>Improvement of compensation practices:</p> <ul style="list-style-type: none"> <li>• <b>Pay indexation;</b></li> <li>• <b>Labour rating.</b></li> </ul> <p>Improvement of social facilities efficiency:</p> <ul style="list-style-type: none"> <li>• <b>Development of key performance indicators of facilities;</b></li> <li>• <b>Changing the approach to the sanatorium treatment.</b></li> </ul>	<p>Improvement of professional skills and competences:</p> <ul style="list-style-type: none"> <li>• <b>Annual cycle of target setting and appraisal;</b></li> <li>• <b>Horizontal and vertical career at OMK;</b></li> <li>• <b>Training and development programmes implemented by internal experts and coaches;</b></li> <li>• <b>Holding professional events for sharing experiences and best practices;</b></li> <li>• <b>"Industrial OMK ELITE" Programme;</b></li> <li>• <b>Professional skill competitions.</b></li> </ul>	<p>Building awareness of employees:</p> <ul style="list-style-type: none"> <li>• <b>Reorganization of corporate mass media;</b></li> <li>• <b>Creation of communications and feedback channels;</b></li> <li>• <b>Founding of the OMK museum.</b></li> </ul> <p>Charity and sponsorship development:</p> <ul style="list-style-type: none"> <li>• <b>Sponsorship and charity development strategy;</b></li> <li>• <b>Development of corporate volunteer services.</b></li> </ul>
<p>Implementation principles:</p> <ul style="list-style-type: none"> <li>• <b>Focus on business performance (rather than execution of certain HR tasks);</b></li> <li>• <b>Synergy from the integration of different HR processes (i.e. multifunctional problem-solution-approach);</b></li> <li>• <b>Comprehensive approach to problem solving, according to which key employees realize their importance and role in pursuance of the company's objectives).</b></li> </ul>		

## 6.2.3. EFFICIENCY

### OPTIMIZATION OF THE ORGANIZATIONAL STRUCTURE

The principal annual results in the improvement of efficiency include the CMW headcount optimization project designed to create a headcount and HR cost efficient structure of a new plant and provide the project with professional employees, by using resources, skills and competences of CMW personnel.

Thus, CMW decreased management levels as part of the aforementioned project by reassigning production plants to the managing director, transferring legal and document support functions to centralized services of OMK-Audit and shutting down steelmaking and casting shops and Mill 800. The Chusovoy Document Support Centre was formed after the merger of document support functions at the Chusovoy fabrication yard.

Once legal support functions had been integrated, the company created a legal department at its Moscow office and a legal support administration for the Ural region, offering services to CMW, APP, BVP and Trubodetal. The centralization of services should cut costs and improve the quality of services in years to come.

### IMPROVEMENT OF COMPENSATION PRACTICES

Improvement of the company's compensation practices is based on the development and application of fair and accurate criteria for payment of material incentives considering a contribution of subdivisions, divisions and every specific employee to the common cause.

The semi-constant part of the remuneration payable to OMK employees totals about 70% and depends on hours worked and working conditions (harmful conditions, night time, etc.), while the variable bonus payment totals 30%. The bonus pay performance targets are based on collective shop performance in terms of quality of products, labour efficiency per shift, consumption indices of critical raw materials (metal) or largest costs of accounts (for example, electrical energy). An employee may also receive one-off payments for a contribution to the company's projects on improvement of efficiency and rationalization activity.

The executives have a system of goal setting — KPIs — achievement of which determines the amount of an annual bonus. The annual bonus is set forth for top managers, executives accountable to top managers and certain key employees. The company adopts indices with target values for each job for a year: both financial (EBITDA) and functional (for example, effective equipment use factor, product-based market share, personnel engagement) indices and development objectives — mastering of new types of products, implementation of the ERP system, etc.

In late 2014, the Personnel Committee approved the targeted approach to pay indexation for OMK businesses and steps to implement it.

### LABOUR RATING

In 2014, Blagoveshchensk Valves Plant completed its comprehensive audit of labour rating processes. The plant launched a brand new compensation practice, substantially improved pay calculation mechanisms and introduced transparent productivity control and evaluation mechanisms thanks to the aforementioned project.

### SOCIAL SECURITY OF EMPLOYEES AND RETIREES

Social responsibility in relation to employees is essential for OMK. The company is the main employer in its presence regions and it accepts obligations to provide social security for employees, including after retirement.

The social policy is based on corporate social programmes set forth in the collective employment agreements of the companies of the Group, including overhead payments and social programmes for employees and retirees.

In 2014, the relation between overhead payments and expenses on social programmes and the payroll without insurance contributions totaled 5.3% against 4.9% in 2013.

## 6.2.3. EFFICIENCY

### STRUCTURE OF OMK SOCIAL SECURITY SYSTEM

#### Overhead payments to employees and retirees

- Financial aid to employees;
- Allowances;
- Social leave;
- Reward incentives;
- Severance pay;
- Sick leave payments at the expense of the employer;
- Other (lodging compensation, meal compensation, etc.);
- Financial aid to retirees.

#### Social programs for employees and retirees

- Health improvement of employees and retirees at health resorts and sanitary institutions
- Medical attention to employees
- Pension fund schemes for employees
- Meals for employees
- Sports expenses
- Other expenses on social programs for employees
- Subscription to printed press for retirees

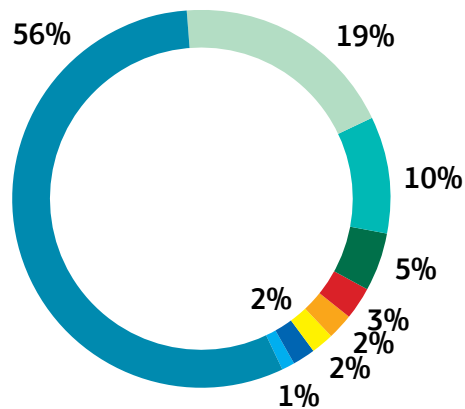
**IN 2014, THE VOLUME OF SOCIAL BENEFITS ROSE 8% Y-O-Y TO 448.9 MLN RUBLES.**

The size of social payments, mln.



## 6.2.3. EFFICIENCY

### STRUCTURE OF SOCIAL BENEFITS IN 2013-2014



- Direct social payments
- Catering services
- Sanatoria and health resorts and health improvement for employees
- Non-state pension provision
- Direct social payments to retirees
- Medicine
- Sanatoria and health resorts and health improvement for retirees
- Housing programme
- Sports

In order to ensure the decent standard of living upon retirement, OMK launched different non-state pension schemes via NPF Gefest. The pension schemes for employees is an essential part of the social policy implemented by OMK plants. An employee of the company may form their pension savings with NPF Gefest on a par with the employer. Partnered with NPF Gefest, corporate pension schemes covered 36% of the company's employees. As of the end of 2014, over 3,500 employees joined non-state pension schemes. In the meantime, 1,233 employees receive corporate pensions. In 2014, the company paid a total of 13.3 mln rubles to employees and retirees — company's veterans in corporate pensions.

#### IMPROVEMENT OF SOCIAL FACILITIES EFFICIENCY

In consequence of comprehensive cooperation with social facilities (such as health spas, recreation camps, health resorts, etc.), their financial performance improved by 8% in 2014 comparing to 2013.

**THE COMPANY INCREASED FUNDING FOR SOCIAL BENEFITS PAYABLE TO EMPLOYEES, HOUSING PROGRAMME, MEDICAL ATTENTION, PROVISION OF MEALS FOR EMPLOYEES Y-O-Y.**

## 6.2.4. COMPETENCE



### ANNUAL CYCLE

The key personnel evaluation tool is the annual efficiency management cycle. This system has been up and running for three years. In 2014, the annual cycle included an objective fulfillment evaluation for the year then ended and a 360° survey (evaluation of OMK behavioral competences).

In the reporting year, the company first evaluated the performance of C-level executives — heads of administrations, area managers, heads of accounting centres, directors general. Over 500 employees took part in the 360° survey, including but not limited to, as observers – executives, subordinates and colleagues of persons so evaluated.

The evaluation results and personnel-related resolutions were summed up and passed at the meetings of the personnel committees chaired by vice presidents of the respective functional departments. In early 2015, nine personnel committee meetings evaluated the competence of employees, issued development recommendations and proposed focus areas for 2015.

Based on the findings of personnel committee meetings, the company set multiplying factors for four executives and decreasing factors for three executives and nominated three executives for the Batashyov Brothers Award.

### PERSONNEL ADAPTATION AND DEVELOPMENT

One of the essential conditions in the company's competitiveness, efficient fulfillment of its objectives and goals is the continuous improvement of professional and management competences of its personnel and the retention of highly skilled employees.

In 2014, OMK businesses approved the updated recruitment rules and the uniform adaptation standard for optimal integration of new employees into the company and turnover reduction. In order to speed up newcomers adaptation, in 2014, OMK developed an interactive adaptation course. The adaptation programme is truly flexible and based on the role of a new employee and understanding if such an employee is an external or internal nominee.

Today, OMK plans to fill in most executive jobs with internal nominees. Furthermore, the company created a job section on its internal portal and in corporate mass media.

In 2014, the company approved the plan for the development of qualification criteria for jobs and professional tests in functional areas of business to improve general competence, organize employer-sponsored education and develop skilled personnel. In order to implement the aforementioned plan, functional executives chose experts, who could develop or update qualification criteria for jobs and professional tests. That done, employees of the company will now be evaluated for professionalism level and after that a list of target development recommendations will be issued. ►►

## 6.2.4. COMPETENCE

### CAREER DEVELOPMENT

For people to be happy with their job, show activity and be ready to make additional efforts to achieve targets, the company finds it imperative to stress the value of each employee, by clearly defining career and pay prospects. Professional development at OMK may be carried out in three areas:

**Managerial career** is a vertical transfer, which suggests moving up the career ladder from a lower to superior job. It's possible to carve out a managerial career thanks to nominee rotations/mobility and observance of several conditions (high performance, professionalism, managerial expertise, career growth motivation).

**Professional career** is a horizontal transfer, which suggests gaining deeper knowledge within certain functionality or getting to know close functionalities. An employee may advance as a professional within a job position, gaining a higher grade and, consequently, a higher income. It's possible to pursue professional career as a project manager, an expert, a mentor or a corporate instructor, a member of professional associations, etc.

**Social career** is a separate sphere of development based on the employee's wish to lend support to those who need it. Furthermore, an employee may as an orchestrator or a volunteer take part in social and charity projects and other events, for example, sports events. Besides, HR management professionals claim that a successful social career may affect two other careers pursued.

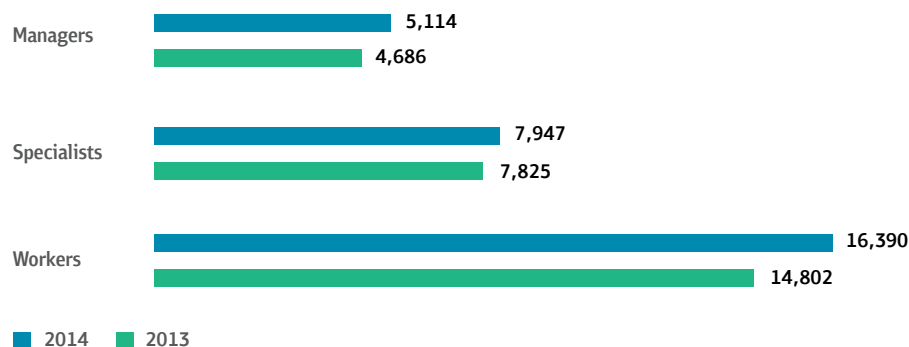
### PERSONNEL TRAINING

In 2014, OMK trained employees in the following fields:

- **Compulsory training (governed by accountable bodies and internal local regulations);**
- **Sideline training;**
- **Functional training;**
- **Technology and equipment training.**

The company's employees had over 29,000 man courses.

Amount of training broken down by personnel categories in 2013-2014, man courses



## 6.2.4. COMPETENCE



In 2014, the company paid special attention to development of internal training, the key channels of which are internal experts and coaches and distance learning.

Distance / electronic learning creates opportunities for continuous personal improvement. The company's electronic learning is based on SAP Enterprise Learning and includes professional training, managerial competence development and personal efficiency improvement courses.

Historically, OMK actively develops professional training. One of the essential projects implemented by CMW was steelmaking and tube-rolling training and work placements.

As part of preparations for the South Stream project, VSW quality control professionals were trained by a Cambridge-headquartered TWI professor and an auditor of the International Register of Certificated Auditors (IRCA). VSW professionals were trained due to high, inter alia, unique requirements set for tubulars certification and personnel qualification by the Dutch general design contractor for the sea section of the South Stream gas pipeline INTECSEA B.V.

### TARGET GROUPS

In 2014, the company created and developed target groups of personnel in order to structure the employees to achieve corporate goals and promote their self-realization. Work with target groups helps to improve the efficiency of personnel development and recruitment efforts and to train professionals and executives to meet future business needs. All target group cooperation programmes were approved at the meeting of the personnel committee in December 2014.

### OMK CAMPUS

In 2014, OMK Campus, a joint project of technical experts of OMK businesses in Vyksa, employees of HR administrations of OMK and VSW and leading national universities NUTS MIS&S and Saint Petersburg State Polytechnic University, held the fourth graduation of master's programme students. The project was launched in 2009 and intended to train highly skilled professionals.

The programme is made up and adjusted every year to meet varying production needs. The OMK Campus ensured the company has a close-knit engaged team of professional engineers who received comprehensive training in steelmaking and rolling production technologies and who can analyze technological processes in an integrated manner.

In June 2014, the company had 19 more graduates, including masters holding the degree in a brand new field of welding production. OMK Campus allowed a total of 59 employees to top up their qualifications.

### INDUSTRIAL ELITE

In 2014, members of the OMK Industrial ELITE programme went on to take further classes under the MBA – Production Systems programme from MSU BS (October 2013 — October 2014). As part of their training, 35 programme participants developed 35 workplace improvement projects and 21 division improvement projects. All these projects are either implemented or being implemented.

The programme is intended to train internal professional managers for leading positions to ensure continuity in management of production units.

In 2014, 45% of the programme participants had some serious career changes, including promotions and rotations.

## 6.2.4. COMPETENCE

### MOTIVATION

The company thanks employees contributing to the steady business development, carefully analyzing and helping handle evolving problems and difficulties, working towards continuous personal and professional improvement.

Every year, best employees receive awards at all levels. In 2014, OMK employees received 3 national awards, 56 agency-level awards, 47 regional awards, 59 municipal awards and about 560 corporate awards.

For 12 years, OMK has been holding prize-giving and awards ceremonies sponsored by the Ivan and Andrey Batashyov Fund named after founders of the Vyksa Steel Works. The awards are given to employees who proposed and showed optimal solutions in their activity, improving production efficiency and labour organization. The contest motivates employees to create original improved technological and managerial solutions and to achieve best performance in their work. The contest winners are awarded a cash bonus.

In 2014, the Vyksa fabrication yard held the annual contest "Professional of the Year" for workers of cross-industry professions, which consisted of book knowledge assessments and test of practical skills of participants. Over 150 employees of the Vyksa fabrication yard took part in the contest.

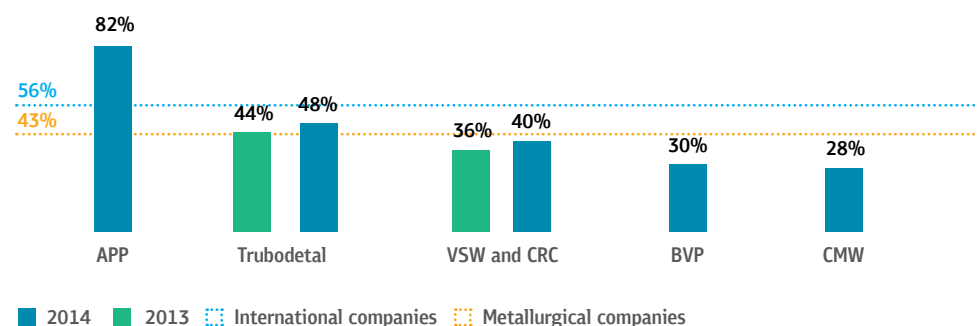
In late October, Yekaterinburg hosted the first ever Russian national WorldSkills Hi-Tech based championship of cross-industry professions. Valery Ivanov, an employee of the Casting and Rolling Complex, became a winner in the competence "Management of Industrial Processes." As a member of the Russian national team, he will take part in the World Championship of cross-industry professions "WorldSkills" in Brazil in 2015.

In 2015, employees of all OMK fabrication yards will first take part in the "Professional" contest.

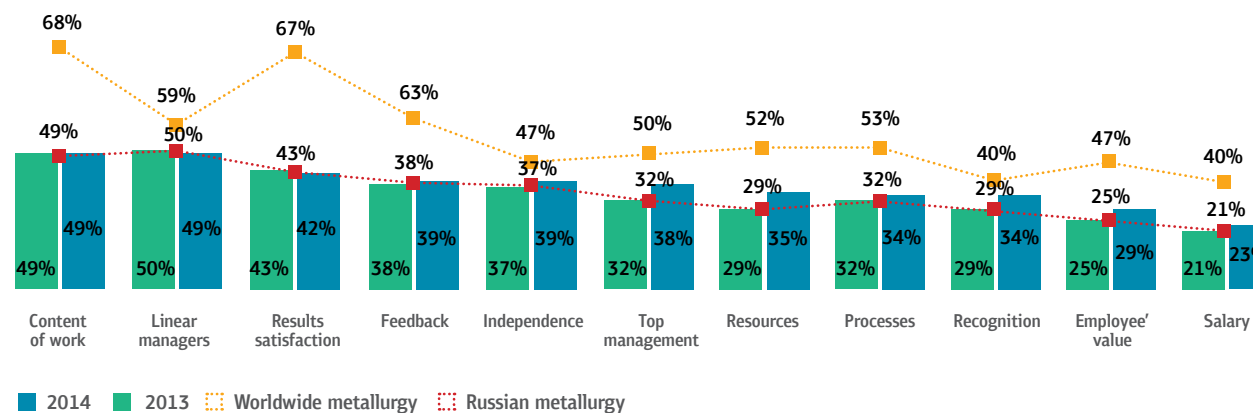
## 7.2.5. ENGAGEMENT

### IN AON HEWITT'S "THE BEST EMPLOYERS OF RUSSIA 2014" RANKINGS ALMETYEVSK PIPE PLANT TOOK FIRST PLACE AMONG ALL RUSSIAN INDUSTRIAL PLANTS AND SEVENTH AMONG ALL RUSSIAN COMPANIES THAT TOOK PART IN THE RESEARCH.

Dynamics of engaged employees share at OMK in 2013-2014



Employees engagement factors in 2013-2014



## 6.2.5. ENGAGEMENT

The company expects that at their workplace every employee should think how they can do their work better than yesterday. But it is essential to understand what “better” and what their personal contribution to the common cause of the entire company is all about. It is also important that if an employee plans work for the company in the longer term, they are motivated to achieve its targets, they are ready to exert additional efforts to make the organization successful. In order to answer these questions and create a favourable working atmosphere in 2014, OMK held an engagement study for the second time.

In 2014, the study covered all businesses and companies in Russia<sup>1</sup> and presented the opinions of over 18,000 employees, making up 67% of the company's payroll.

The engagement study, incorporating an anonymous questionnaire survey and focus groups to specify the findings, is a part of the continuous cycle for improvement of working conditions. Based on the findings of the study, top management of each business (division) makes up and executes a comprehensive action plan, following which employees evaluate any changes that took place.

The major problem, which was identified by the engagement study, is that executives neither pay any attention to their subordinates nor set any clear goals for them, nor help them achieve these targets, nor offer any feedback, while employees believe their executives have a poor level of management competences.

This is precisely why the company was mostly focused on line managers and development of channels of communications with employees.

Meetings with executives at their workplaces is one of the essential interaction tools. A worker may tell and show a division director, a shop manager or a senior foreman about his area progress, what was done to introduce improvements, what problems he faces and receive feedback, how the situation may be improved.

The pay and bonus pay performance target rules are displayed on shop stands for employees to know how their salary is calculated.

The key personnel information channels include an internal portal, corporate newspapers, corporate magazine “OMK Komanda” (which stands for OMK Team), special interest magazines, e-mail newsletters, information days and shop-floor walks.

The company's goal is to create such conditions when there is a direct, clear and outcome-driven cooperation between different subdivisions. To do that, the company needs not only leadership skills but also concerted team efforts, which should be reflected in the cross-functional interaction and open dialog with employees.

The employees may apply to executives via the reception page at the corporate portal or file an inquiry via special mailboxes set up in shops. There is a hot line employees may use to report corruption and other abuses: toll free phone: 8-800-555-00-22 and e-mail: [hotline@omk.ru](mailto:hotline@omk.ru).

The company will soon create a special information environment where employees will become key persons and all corporate mass media will tell about them and their

work. The employees may also relay their thoughts and ideas about promising areas for business development from a head of the company to leaders of subdivisions via all in-house channels.

As an example of such a large opinion and experience sharing event, we should note the seventh research-to-practice conference of young OMK specialists. This conference allows the company's businesses to search out talented young specialists, create conditions to unlock creative potential for addressing technical and technological problems conducive to production improvement, cut costs and better profit margins of the company. There are several conference sessions where young employees of the company may deliver their reports introducing their scientific research results and findings. Following the conference, each session chooses a winner, a best work and a best innovative idea of the entire conference.

<sup>1</sup> Study of the engagement in 2013 covers only the JSC “UMC”, Vyksa production site and the plant.

## 6.3. LABOUR SAFETY



Life and health of employees is the major priority of the United Metallurgical Company. Continuous improvement of the occupational safety system allows the Group to reach a high level of safety in a business environment and ensure their stable and reliable functioning.

The key regulation governing the company's occupational safety efforts is the OMK environmental safety, health protection and occupational safety policy.

For more information on the OMK environmental conservation, health protection and occupational safety policy, please, visit the official website of OMK — [www.omk.ru](http://www.omk.ru)

The environmental safety, health protection and occupational safety bylaws also include:

- **OMK environmental safety, health protection and occupational safety management and performance standards;**
- **“Bylaw and record management” standard;**
- **Regulation on OMK Occupational Safety Committee;**
- **“Personal safety equipment of employees of OMK and subsidiaries” standard;**
- **“Record keeping of accidents in OMK subdivisions and subsidiaries” standard;**
- **“Principal behavioural safety in OMK subdivisions and subsidiaries” standard;**
- **“Management of environmental, industrial safety of contractors at OMK facilities and subsidiaries” procedure.**

The company seeks to engage employees in occupational safety processes as much as possible. The Occupational Safety Committee is formed at the level of the asset management company of JSC OMK and deemed to be an advisory body under the President of the company. The committee contributes to dissemination of information and maintains motivation of the personnel in ensuring and monitoring safety at work. Conscious, designed and extensive participation in safety committees is an efficient way to pursue the company's environmental conservation, health protection and occupational safety goals.

## 6.3. LABOUR SAFETY

### OMK OCCUPATIONAL SAFETY MANAGEMENT SYSTEM



## 6.3. LABOUR SAFETY

### 2014 RESULTS

In 2014, OMK reached over 60% of occupational safety targets. A part of the targets has been moved to 2015. In 2014, all major jobs were completed by 18% of targets but the company is further expected to approve, launch and commission documents and systems in 2015.

In 2014, OMK continued to develop key areas for improvement of occupational safety:

- Occupational safety culture change project;
- Safety of operating processes;
- Contractor management;
- Transport safety;
- Personnel health.

As of the end of 2014, 77% of all executives and specialists — over 18,000 people — completed training under the programme “Conscious Safety Management” and behavioral audits. Training completion is expected in 2016.

As part of the efforts to top down accident investigation to the level of workshop workers of all divisions and automate this process, Vyksa Fabrication Yard approved the respective standard of OMK in May 2014. VSW commissioned the automated accident accounting system. Over 35% of all executives and specialists completed training under the programme. In 2013-2014, a total of 338 executives and specialists of the company completed training dedicated to internal investigations and analysis of accident causes.

IMPLEMENTATION STATUS	GOAL	IMPLEMENTATION STATUS	GOAL
100%	To reach the target of general (industrial and off-the-job) injury frequency of the OMK Group	100%	To automate the rating system designed to evaluate legislation enforcement and line organization management system
100%	The share of accidents, which the OMK Group looked into internally (investigations completed, no fewer than), %	70%	To automate occupational and environmental safety processes
100%	Special evaluation of working conditions	50%	To implement a risk assessment mechanism at enterprises
100%	The number of executives, employees and specialists, who took a course in “Conscious Safety Management with Training in Behavioral Safety Audits For All Categories of Personnel” (% of OMK personnel requiring training)	50%	To develop corporate occupational and environmental safety standards
100%	To implement a mechanism of conducting a behavioural safety audit and taking actions based on the findings		
100%	Accident investigation		

## 6.3. LABOUR SAFETY

In 2014, OMK trained employees in contractor management and risk assessment (completed by 35% and 10% of employees, respectively).

In the reporting year, all OMK businesses continued to automate occupational safety management processes. In November 2014, the company accepted the Evaluation module (Special evaluation of working conditions) in the ADS system (Medicine, accidents, radiation) into commercial service.

In 2014, the company completed proposals on implementation of SAP HSE, the launch of which is expected in 2015.

The company pays greater attention to awareness of personnel of on-site safety culture. The training courses dedicated to the aforementioned matter are provided for all levels of the company management, ranging from workers to top management.

WORKSHOP	TARGET AUDIENCE	KNOWLEDGE AND SKILLS GAINED
Safety management. Systems employed by plants top managers	Top management	Understanding the needs for changes in OHSE Understanding key elements of OHSE management system in OMK
Efficient safety management methods with training in behavioral safety audits	Line managers	Understanding changes implemented in OMK and taking an active part in their implementation
Development of the conscious attitude towards safety	Workers and specialists	Understanding implemented changes and approach of the company to OHSE Support for and active participation in implementation of changes
Accident investigation and analysis of key causes	Managers of manufacturing shops and shop areas	The skill of conducting an internal accident investigation to ensure such accidents never happen in future The skill of conducting polls and looking for key accident causes
Risk assessment, analysis and management	Managers of manufacturing shop areas	Understanding fundamentals of the programme, the skill of identifying and managing risks, training subordinates and implementing the programme at workplaces Implementing preventive actions of efficient protection in performance of works Creating and distributing high occupational safety standards
Efficient operating methods for specialists of the OHSE department	Executives and specialists of the OHSE department	Understanding one's own role in development and implementation of the safety programme Formation of the optimal interaction with other subdivisions
Behavioral safety audits (additional workshop)	Managers of manufacturing shop areas	Anticipating situations which may lead to adverse effects Discussion of safety issues with personnel Analysis of audit findings

## 6.3. LABOUR SAFETY

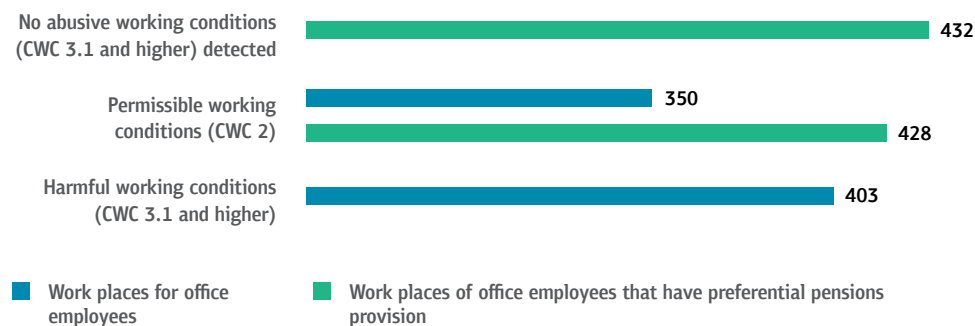


An essential result of the year was the special evaluation of working conditions (SEWC), which has replaced workplace assessment since 2014. SEWC was launched at workplaces where working conditions were improved considerably (offices and back rooms repaired, lighting improved) last year and, as a consequence, SEWC reduced classes of working conditions from 3.1 or 3.2 to class 2 with permissible and optimal working exposure limits.

In order to ensure occupational safety at workplaces, OMK developed and effected the corporate standard "Personal safety equipment of employees of OMK and subsidiaries", which, among other things, sets forth requirements for personal safety equipment given to OMK employees.

By having had a tender, the company chose several suppliers, working clothes and personal safety equipment of which fully meet the existing requirements of the corporate standard. In 2014, the company also developed technical standards for fabrication of summer clothes for men and women and winter overalls for protection against low temperatures and general soiling.

### SEWC plan completion report in 2014



<sup>1</sup> Federal Law as of December 28, 2013 #426-FZ On the Special Evaluation of Working Conditions.

## 6.3. LABOUR SAFETY

### INDICATORS OF SAFETY AT WORKPLACE

A continuous decline in occupational accidents and diseases is one of principal obligations OMK assumed towards its employees. The company's chief efforts are intended to implement comprehensive actions to minimize risks, resulting from the use of industrial facilities, to raise awareness of personnel and to train personnel.

As the company evaluates occupational safety efficiency, OMK uses the following indicators:

- **Fatal Injury Frequency Rate (FIFR);**
- **Injury Frequency Rate (Fr);**
- **Lost Time Injury Frequency Rate (LTIFR);**
- **Occupational Disease Rate (ODR);**
- **Lost Day Rate (LDR).**

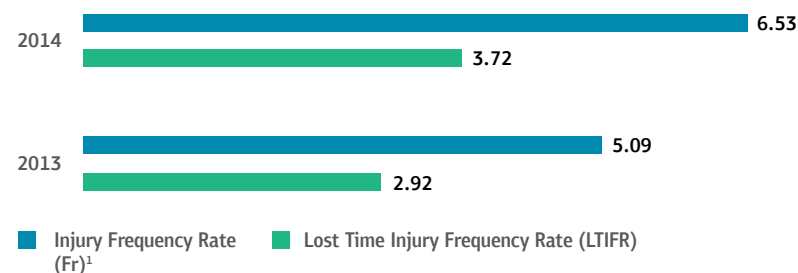
OMK's target quantitative health protection and safety indicator has been the injury frequency rate (Fr)<sup>2</sup> since 2014. This indicator affects the amount of annual (quarterly) remuneration payable to OMK management, managing directors of businesses, directors of divisions and heads of occupational safety departments and services based on annual (quarterly) performance.

In 2013-2014, there were no fatal injuries detected in the company's businesses but in 2014 there was a 20% increase in the number of persons injured in industrial accidents (151 people v. 126 in 2013). In the reporting period, the most widely spread causes for accidents have been failures to observe labour and operational discipline, take personal safety measures, equipment failures. In order to mitigate the risk of their recurrence, OMK analyzes the root causes for accidents, develops the respective preventive actions and takes explanatory and awareness-building efforts for the personnel.

The key actions OMK took to reduce industrial injuries in 2014:

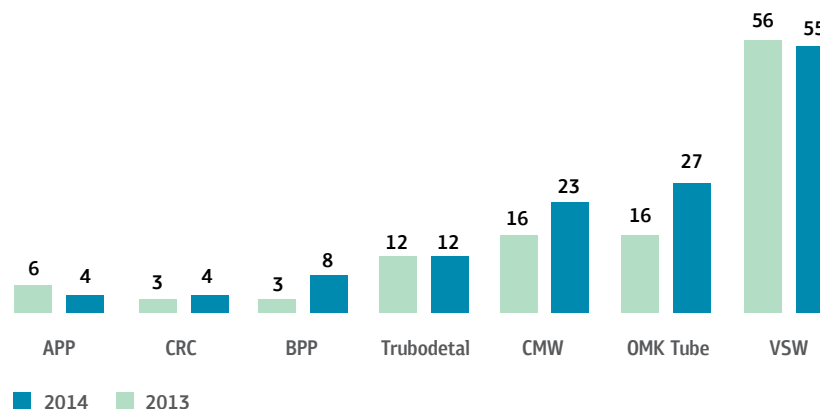
- **Extra training, elaboration of causes for accidents in teams;**
- **Technical arrangements (equipment repairs, etc.);**
- **Development of documents, schemes, etc.;**
- **Additional building assessments;**
- **Control (appointment of executive officers, additional target assessments, etc.);**
- **OHSE training and certification;**
- **Provision with personal safety equipment, tools, ladders, etc.;**
- **SEWCs, evaluations, assessments, expert studies.**

#### Injury Frequency Rates in OMK plants in 2013-2014



<sup>1</sup> The detailed description of the injury rates calculation methodology is given in the appendix "Arrangement of standard elements of the GRI Guideline".

#### Number of persons injured in industrial accidents in 2013-2014, ppl.



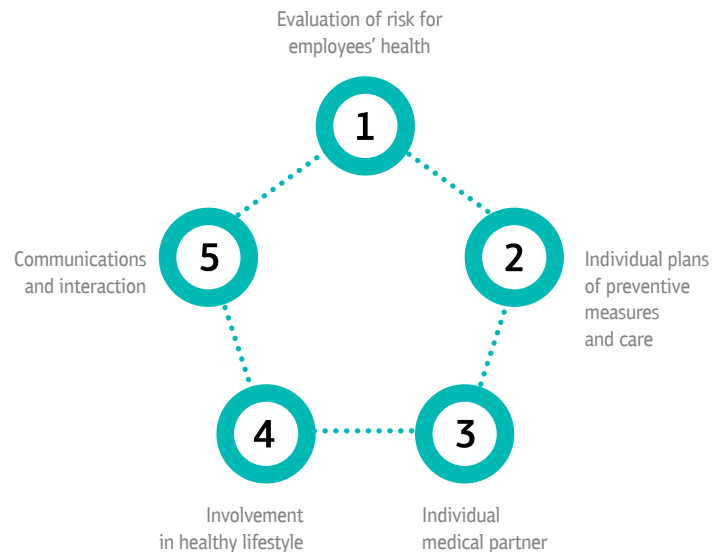
<sup>2</sup> Fr — Injury Frequency Rate — shows the amount of industrial accidents and domestic accidents on 1000 employees.

## 6.3. LABOUR SAFETY

### DISEASE PREVENTION AND HEALTHY LIFE STYLE

OMK's objective is to create optimal working conditions to minimize injury rate and occupational diseases, reduce time lost by an employee due to diseases and extend the working age of experienced and qualified personnel.

In 2014, the company started working on the concept "Health management of employees of OMK businesses", which provides for engagement of employees in management of their own health through programmes on health prevention, raising awareness, development of disease self-prevention skills and improvement of the quality of life.



### INDUSTRIAL SAFETY

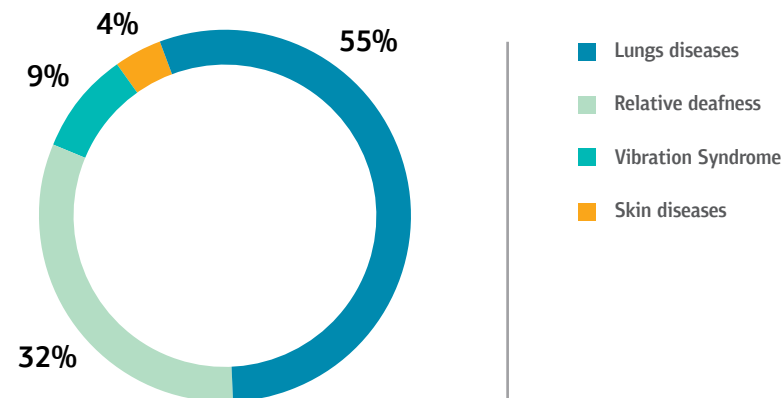
Thanks to actions specified by the Concept, the company expects a decline in days away from work due to incapacity of its personnel for work by:

- **Managing prevalence of the professionally conditioned and socially important pathology;**
- **Monitoring of health of employees for compliance with requirements and risks of the business environment;**
- **Creating an efficient MER system meeting best international practices;**
- **Shaping a corporate culture of responsible health and safety attitude.**

In 2014, there were a total of 22 occupational diseases, 64% of which were recorded by CMW, 32% — by OMK plants in Vyksa, 5% — Trubodetal.

The company plans to intentionally decrease the indicator of occupational diseases 10-15% per year. By 2020, the indicator should be decreased five times against the 2014 figures.

Causes of professional diseases in 2014



## 6.3. LABOUR SAFETY

### ARRANGEMENTS WITH CONTRACTORS

In order to improve the occupational, industrial and environmental safety management system, OMK takes steps to interact with contractors in occupational health safety and environment in its businesses.

In order to ensure safety requirements, OMK developed a special form for contractors — Appendix to the contract “Occupational, industrial, fire, environmental safety enforcement.” By signing it, a contractor undertakes to use all available resources and follow OMK occupational, industrial, environmental and economic safety procedures, rules, guidelines to avoid or minimize possible damage caused to environment and the health of OMK employees, visitors and third persons.

When selecting contractors, OMK checks occupational and environmental safety bylaws, information on the injury rate in a contracting organization, compliance with ISO 14000, OHSAS 18000 standards, professional experience in business entities of JSC OMK specifically pertaining to compliance with OHSE requirements and other aspects of the contractor's operations.

### PREVENTION OF EMERGENCY SITUATIONS

All OMK businesses, using dangerous facilities, shall take the following actions to contain and eliminate the damage caused by accidents:

- **Signed service agreements and contracts with professional emergency rescue teams; certain plants created their own professional emergency rescue teams;**
- **Developed plans on containment of accidents per every existing risk of an accident or emergency, which are reviewed on a rolling basis and then approved by specialists of the Federal Environmental, Industrial and Nuclear Supervision Service of the Russian Federation;**
- **Conduct compulsory training of employees about what to do in case of an accident or emergency at a dangerous industrial facility, special training sessions for the personnel followed by analysis and development of the improvement plan;**
- **Created systems for supervision, notification, communications and support for actions in case of an accident reviewed on a rolling basis;**
- **Organized and ensured operational control over compliance with industrial safety requirements in accordance with requirements set forth by the Government of the Russian Federation.**

Despite comprehensive efforts to prevent, contain and eliminate the damage caused by accidents and emergencies, the OMK businesses had 8 accidents in 2014, which is two times as many as in 2013. Furthermore, the company had one fire in 2013-2014. It is also noteworthy to mention that no accidents were detected in 2013-2014.

## 6.4. ENVIRONMENTAL SAFETY



### 2014 RESULTS

OMK gives priority to efforts to minimize the adverse environmental effects of its business operations. Life, health, favourable environment, benevolent relationship with local population are OMK's supreme values shaping responsible business conduct principles.

The environmental safety principles of the OMK Group are as follows:

- **Compliance with statutory and other requirements governing environmental safety activities**
- **Averting accidents, continuous improvement, reducing adverse environmental effects. Averting is better than fixing.**
- **Efficient use of natural and energy resources**
- **Raising personnel awareness and responsibility for meeting environmental objectives**
- **Compliance with requirements and continuous improvement of the integrated ISO 14001 compliant management system.**

Each company within the Group developed the Labour and Environmental Safety Management Programme, which was approved by the Managing Director and is now being implemented. Furthermore, each company within the Group has its own environmental service reporting directly to the Managing Director.

In 2014, five of the six OMK companies maintained valid ISO 14001:2004 compliant certificates of conformity, while PJSC BVP took steps to develop and implement the environmental management system in line with ISO 14001:2004 requirements and the labour and environmental safety management system in line with OHSAS 18001:2007 requirements. In 2015, the plant is expected to have a certification audit of its systems.

A special representative, the Integrated Management System Officer (IMS), is appointed by the Managing Director of the company and, regardless of other duties, monitors compliance with ISO 14001:2004 requirements and submits to the management performance reports on the environmental management system, including recommendations on its improvement.

The company achieves stated environmental safety targets by analyzing dynamics and major factors affecting the environment and carefully keeping track of such indices, as:

- **Total waste generated in kg/ton of products;**
- **Percentage of reclaimed and recycled waste;**
- **Effluents, correlation between actual pollutant discharge into water bodies and specified permissible discharge limits;**
- **Balance of expenses on waste reclamation and its sales revenues, thousand rubles per year;**
- **Percentage of limit-exceeding payments of the total payment for adverse environmental impact.**

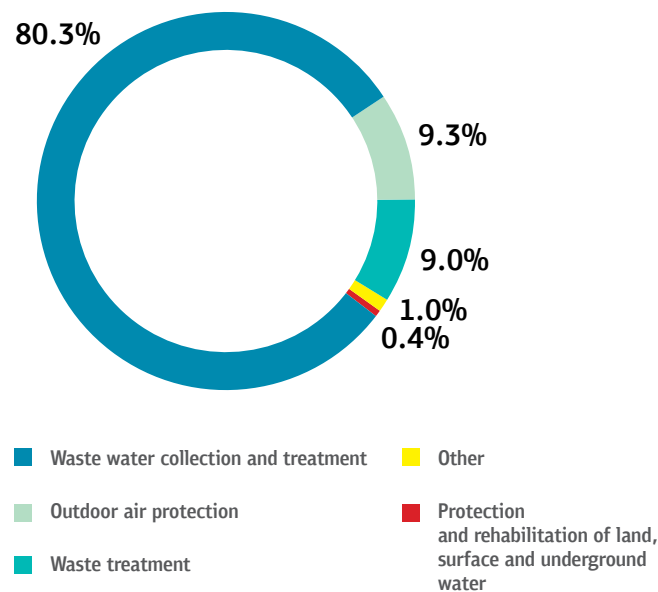
## 6.4. ENVIRONMENTAL SAFETY

### ENVIRONMENTAL SAFETY INVESTMENTS

In 2013-2014, OMK has invested 270 mln rubles for environmental safety projects. More than 60% went to capital construction of objects that are related to fixed assets of environmental value, another 31% went to materials and equipment.

In 2014, gross sulphur dioxide emissions halved thanks to an almost twofold decline in CMW and BVP emissions and 28% decline in emissions by VSW.

Structure of variable costs for environmental safety projects in 2014



### WASTE

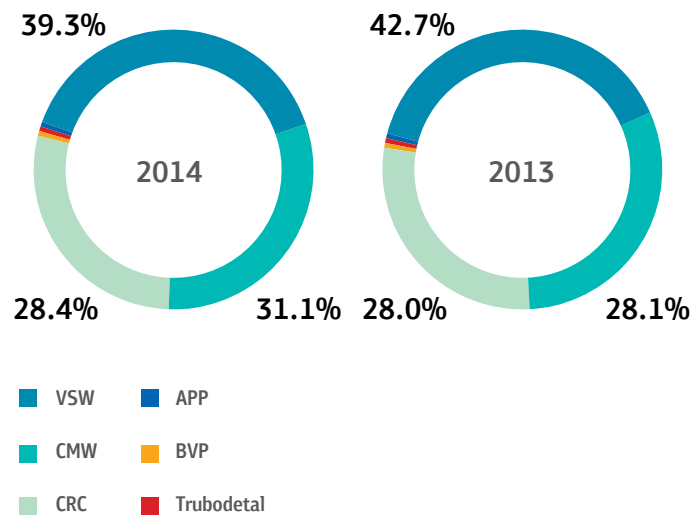
OMK plants manufacture different types of metal products, each having influence on different waste generation volumes: from hundreds of thousands to thousands of tons.

In 2014, the company took an inventory of the types of waste due to amendments to waste product and consumer waste management laws and introduction of the new Federal Cadastral Waste Classifier (FCWC) and the new form of a passport for Class 1-4 hazardous waste. The new waste passports are executed and sent to the Office of the Federal Service for Supervision of Natural Resource Usage.

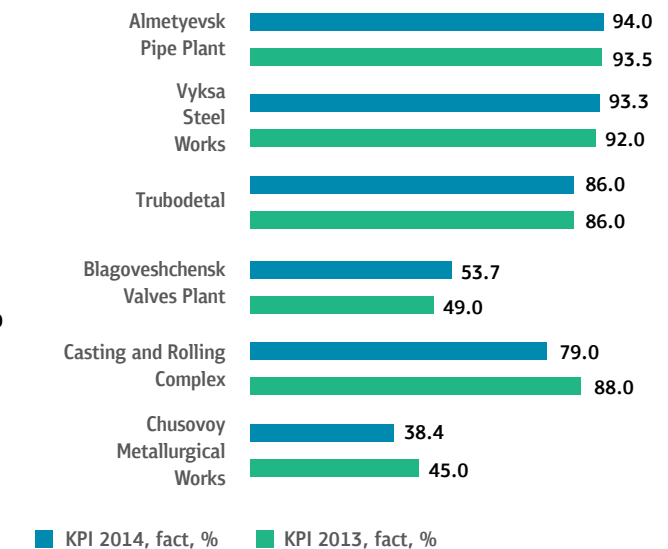
In 2014, the total waste generation volume remained at the comparable level y-o-y and amounted to 1.2Mt (+1.08% y-o-y).

One of the key performance indicators of OMK companies is the share of upcycled and recycled waste.

Structure of waste creation in 2014

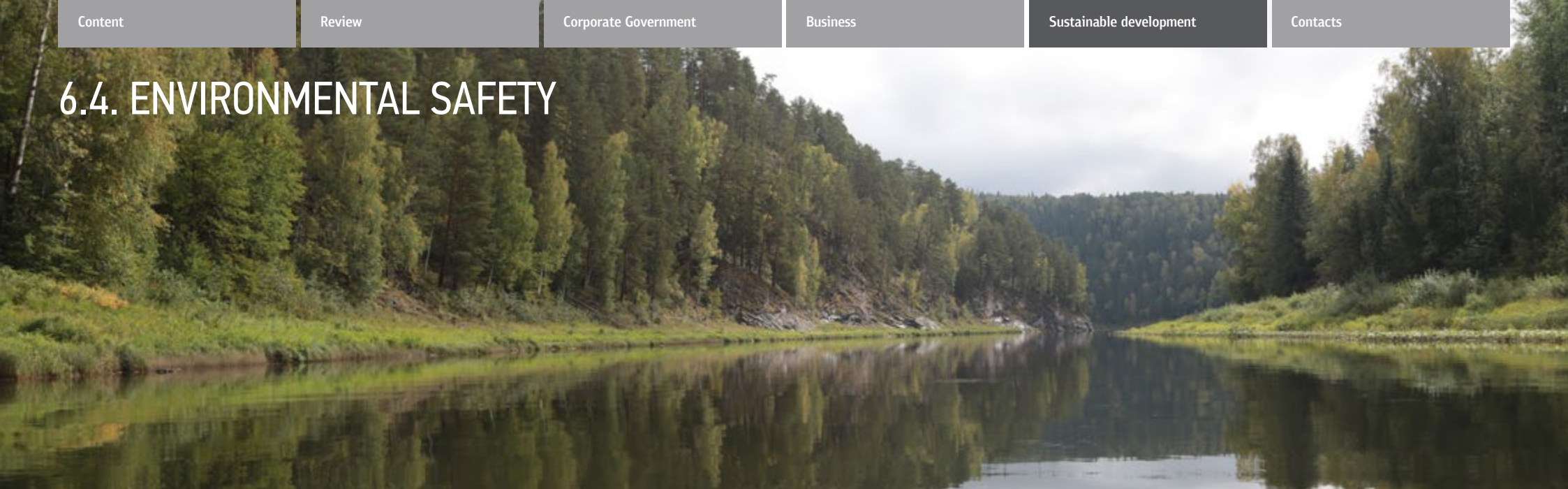


Achievements of targets of OMK plants by upcycled and recycled waste



<sup>1</sup> Decree of the Government of the Russian Federation as of August 16, 2014 No. 712 On the I - IV Hazard Class Waste Passporting Procedure, Order of the Federal Service for Supervision of Natural Resource Usage as of July 18, 2014 No. 445 On the Approval of the Federal Classification Waste Catalog.

## 6.4. ENVIRONMENTAL SAFETY



One of the reasons why the Casting and Rolling Complex (CRC) failed to deliver the target was the generation of waste by the newly commissioned shredder unit at the shredded scrap line, which increased waste dumping at the disposal area. CMW failed to reach its target because it had to shut down steelmaking and casting shops. Therefore, since Q3 2014, it has ceased generating the waste it used to send for reclamation.

In 2014, VSW drafted the Separate Waste Collection System Development Programme, which will subsequently be used by all OMK companies and requires that:

- **Equipment of interim waste accumulation areas (purchase of additional containers, use of color identification);**
- **Exposure of waste, which may be recycled;**

- **Search for companies to whom waste can be transferred to for recycling;**
- **Exposure of the most important waste for a subdivision;**
- **Visualization of the most important waste by subdivisions in areas;**
- **Development of actions and efforts to reduce waste generation.**

In order to avert any adverse impact of waste products and consumer waste on human health and the environment and to engage such waste in the stream of commerce as additional sources of raw materials, VSW professionals have developed and enacted the Requirements for Organization and Equipment of Interim Waste Product and Consumer Waste Accumulation Areas. In 2015, successful practices will be applied to all OMK companies.

In 2014, the share of CRC in waste generation volumes totaled 28.4%. In order to decrease the amount of waste products and consumer waste dumped at special disposal areas, CRC has implemented the Replacement of the Oscillating Press with the Roll Press on the Briquetting Line. The briquetting line equipment is intended for the reclamation of its own essential iron-containing waste (mud of treatment facilities, uncontaminated ferrous metal dust, scale). CRC will get raw materials (stock) in briquettes for use in steelmaking thanks to this reclamation. In 2014, OMK signed a contract to conduct research work to receive experimental information and evaluate economic effects from the implementation of the project. The research is expected to be complete Q3 2015.

In 2014, the company adjusted and negotiated the terms of reference under the liquid ladle slag reclamation project in accordance with which, the company will perform its expert safety examination in 2015. Its implementation is scheduled for Q3 2016.

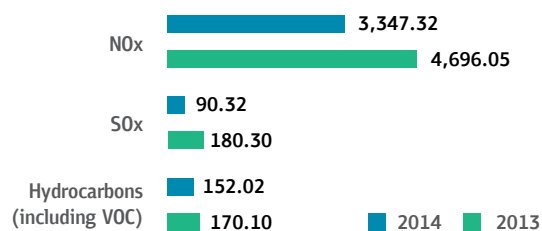
## 6.4. ENVIRONMENTAL SAFETY

### AIR

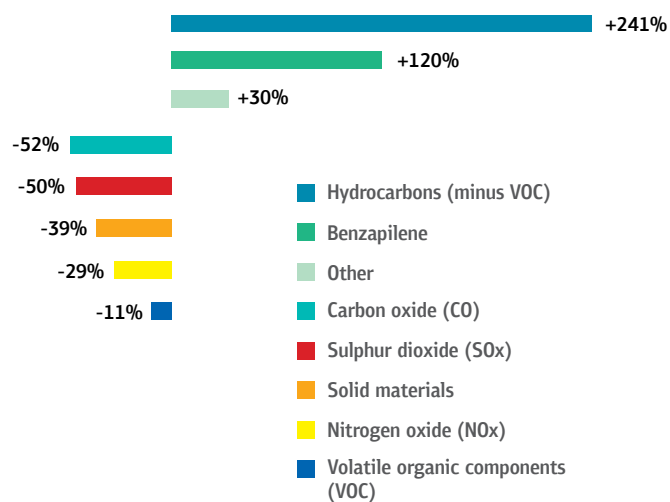
In 2014, OMK companies reduced the mass of air pollutant emissions by almost 40%, which is due to production activities and the comprehensive environmental efforts of OMK companies.

Thus, in the reporting period, the companies halved sulphur dioxide and carbon oxide emissions and reduced solid and NOx emissions by 39% and 29%, respectively.

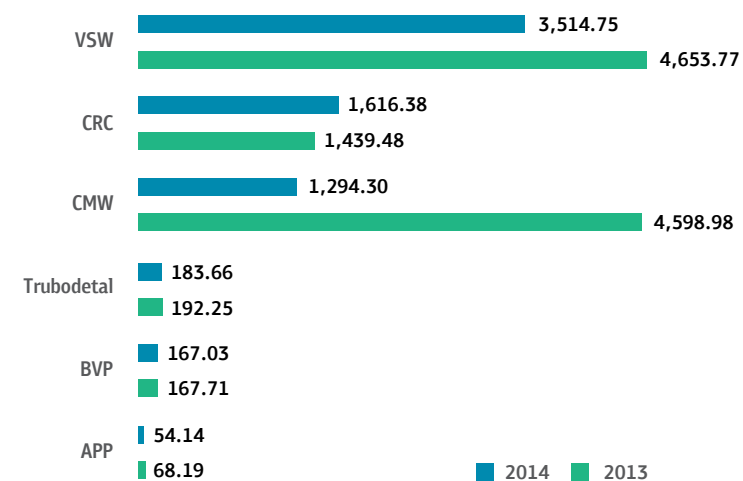
#### Structure of gross atmospheric emissions, tons



#### Dynamics of changes in mass of total air pollutant emissions in 2014, y-o-y



#### Gross air emissions as broken down by OMK plants, tons



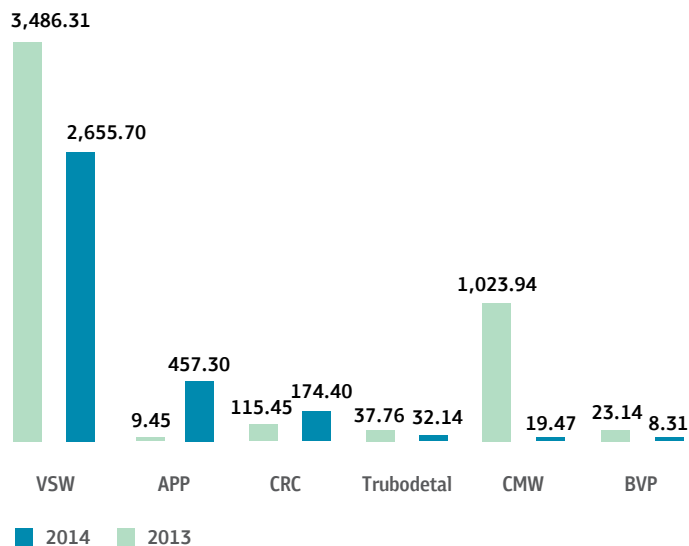
## 6.4. ENVIRONMENTAL SAFETY

### WATER

Nitrogen oxides (NO<sub>x</sub>) constitute over 90% of gross air emissions. In the reporting period, NO<sub>x</sub> emissions decreased by almost 30% thanks to the reduction of emissions by CMW (-98%) and BVP (-64%), stemming from the decline in use of the companies' production capacities. Meanwhile APP's emissions grew and totaled 14% in the breakdown of gross air NO<sub>x</sub> emissions against 1% in 2013.

In 2014, gross sulphur dioxide emissions halved thanks to an almost twofold decline in CMW and BVP emissions and 28% decline in emissions by VSW.

Breakdown of gross air NO<sub>x</sub> emissions in 2013-2014



In 2014, there were certain changes in water use legislation<sup>1</sup> affecting the business operations of OMK plants: CMW, Trubodetal and BVP joined the ranks of subscribers dumping water into centralized water disposal systems (to MUE Gorvodokanal), for which the government sets forth pollutant, other substance and microorganism discharge limits. Today, OMK takes efforts to develop draft limits.

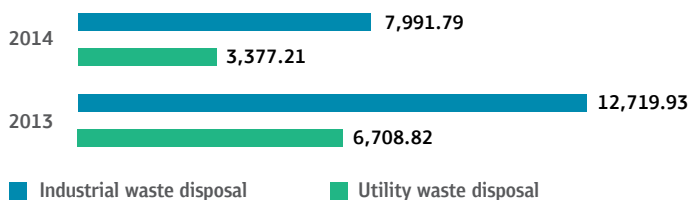
In 2014, the total water abstraction by OMK companies declined by 33% y-o-y<sup>2</sup>.

The main causes for this decrease in water abstraction was the decline in abstraction of water from surface sources at CMW and a decline in water inflow from water supply networks of other organizations at VSW and CMW.

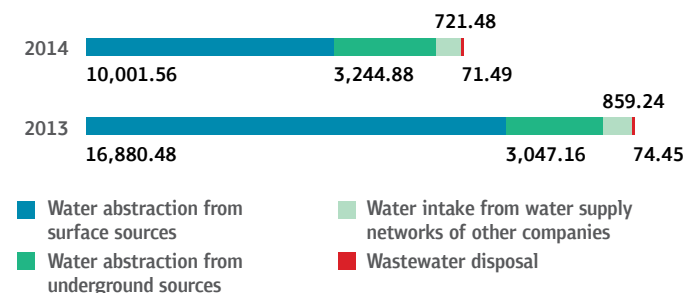
The list of largest water bodies affected by the company's operations includes the Nizhne-Vyksunskoye Reservoir (Nizhny Novgorod region), Chusovaya River (Permsky kray), pond near the Potekha River (Republic of Bashkortostan).

In 2014, water disposal declined 41% largely thanks to an almost 55% decrease in CMW discharge of pollutant effluents and poorly treated effluents into surface water bodies.

Utility and industrial waste disposal in 2013-2014, '000 m³



Water abstraction from all sources in 2013-14, thous. m³



### ARRANGEMENTS WITH CONTRACTORS

In order to ensure compliance with environmental safety requirements in the pursuit of our activities, OMK facilities monitor operations of their contractors. The following parameters are evaluated in the working space of contractors: state of the environment, potentially hazardous conditions and actions. OMK facilities monitor the operations of their contractors by means of targeted inspections, behavioural safety audits, detection of failures to meet statutory requirements of the Russian Federation for industrial safety, labour and environmental safety and accounting.

The labour, industrial, fire, environmental safety law compliance agreement is a mandatory appendix to contractor's agreements.

<sup>1</sup> Order of the Ministry of Natural Resources and Environment of the Russian Federation as of July 29, 2014 No. 339 On the Amendments to the Order of the Ministry of Natural Resources of the Russian Federation as of December 17, 2007 No. 333 On the Approval of the Methods for Development of Permissible Limits on Discharge of Substances and Microorganisms into Water Bodies for Water Consumers and Abstractors.

<sup>2</sup> Given special aspects of the internal information collection and consolidation, water data includes VSW, CMW, Trubodetal and APP figures.

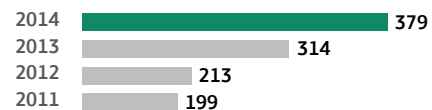
## 6.5. DEVELOPMENT OF OPERATIONS AREAS

We are one of Russia's largest makers of products for the major energy, transportation and industrial sectors and we recognise that it is essential to develop our operating areas and to forge mutually beneficial relations with local communities, government authorities, our partners and clients.

It is crucially important for OMK to weigh our business objectives against the interests of our operating areas and we seek to ensure that there is an efficient social infrastructure in these areas.

An active social policy is an integral part of OMK's strategy. The company views community programmes as its long-term investment in the stability of the local communities in our operating areas. We seek to create and strengthen long-term relations with the public and to maintain an open dialog with NGOs, local authorities and other stakeholders.

### Expenses on charity and social projects, mln rub.



In 2014, OMK's priorities in the development of regions included:

- **Building and maintaining the economic situation;**
- **Taking an active part in the labour market stabilization;**
- **Delivering social, cultural, educational and environmental projects meeting the needs of a specific region;**
- **Forging relations with regional partners.**

OMK undertakes community-focused projects both through its businesses and companies and through its corporate OMK-Uchastie Charity Fund, set up by shareholders and financed from donations of shareholders and employees of the company.

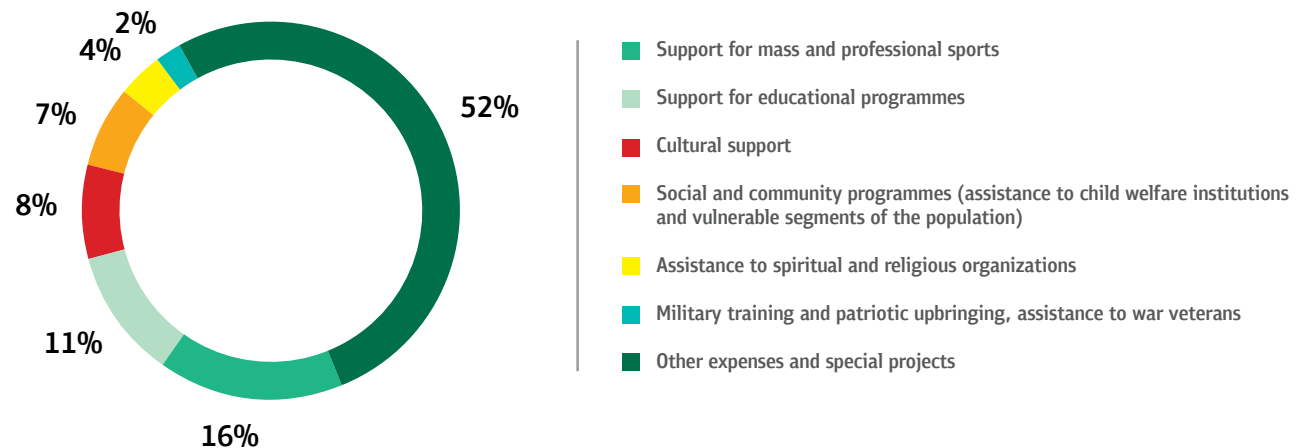
OMK implemented all of its charity and sponsorship programme in accordance with the OMK Sponsorship and Charity Guidelines adopted in 2014. In addition in 2014, we further drafted principal provisions for the sponsorship and charity development strategy for 2015-2016, which will be approved in 2015.

## 6.5. DEVELOPMENT OF OPERATIONS AREAS

Structure of sponsorship and charity spending in 2014

Scope of charity and external social programmes:

- Support for mass and professional sports;
- Support for educational programmes;
- Cultural support;
- Social and community programmes (assistance to child welfare institutions and vulnerable segments of the population);
- Assistance to spiritual and religious organizations;
- Military training and patriotic upbringing, assistance to war veterans.



## 6.5. DEVELOPMENT OF OPERATIONS AREAS

### SOCIAL AND CHARITY PROJECTS ARE A KEY PART OF OMK'S CORPORATE STRATEGY. THEY HELP CONSTRUCTIVE COOPERATION WITH THE GOVERNMENT, BUSINESS CIRCLES AND SOCIETY.

In 2014, OMK sponsored about 80 social and charitable projects, programmes and fundraising activities intended for the implementation of creative and educational initiatives, support for children, youth and seniors, support for development of professional and amateur sports in the company's operations areas.

### MILITARY TRAINING AND PATRIOTIC UPBRINGING AND ASSISTANCE TO WAR VETERANS

OMK, in collaboration with the Maris Liepa Charitable Foundation and the Central Museum of the Great Patriotic War on Poklonnaya Hill, has been holding the Ball of Victors since 2006. Every year, hundreds of war veterans come here from across Russia, other CIS countries and Baltic states, Eastern Europe and Israel.

In 2014, the ball was dedicated to the 70th anniversary of the Leningrad Siege Relief, Crimea, Right-Bank Ukraine and Belarus liberation.

There were about 500 people taking part in the Ball of Victors in 2014, 110 of whom were veterans of the Great Patriotic War from South Ossetia, Crimea, Belarus, Ukraine, Kazakhstan, Tajikistan, Moldova, Armenia, Kyrgyzstan, Azerbaijan, Latvia, Lithuania, Abkhazia and Estonia.

Every year, the company also funds May 9 VE Day celebrations and Councils of Veterans and helps military and patriotic organizations and festivals in cities in our operating areas.

## 6.5. DEVELOPMENT OF OPERATIONS AREAS

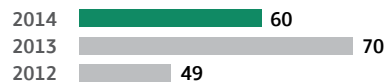


### SUPPORT FOR MASS AND PROFESSIONAL SPORTS

OMK develops professional and amateur sports, carrying on the traditions of our oldest sports centres in our operating areas and creating the necessary conditions for opening new ones.

The priority sports for OMK are sambo, skiing and football. The company offers its sponsorship to large tournaments and develops the local sports infrastructure.

OMK support for mass and professional sports, mln rub.



In 2014, the following projects were completed under the auspices of the United Metallurgical Company:

Tournaments and competitions:

- Battle of Champions (Russian Union of Martial Arts);
- World Judo Championship;
- Batashyov Bros. Sambo Tournament;
- Children's, youth's and men's football competitions in Vyksa and Chusovoy;
- Snow Day Festival;
- OMK-Sprint Winter Sports and Outdoor Activities Festival;
- OMKiada;
- Plant Spartakiad Games.

Infrastructure development:

- Construction of athletic fields in the company's operating cities;

Support for sports organizations, associations and initiatives:

- Metallurg, Volga, CMW football clubs;
- ANO Vyksa-Dance-Sport;
- Sports Against Drugs Programme;
- Award for high sporting achievements;
- Philanthropic assistance to institutions in the physical culture and mass sports in the company's operations areas.

## 6.5. DEVELOPMENT OF OPERATIONS AREAS

### ASSISTANCE TO CHILD WELFARE INSTITUTIONS AND VULNERABLE SEGMENTS OF THE POPULATION

We implement social and community programmes designed to support disadvantaged groups, children in difficult straits, youth and seniors in our operating areas.

In 2014, the following projects were completed under the auspices of the United Metallurgical Company:

- **Support for orphan asylums and special educational institutions;**
- **Support for children's educational institutions;**
- **Support for disadvantaged groups;**
- **Letter to Grandfather Frost Fundraiser;**
- **Children's Day and International Day for the Elderly, etc.**

### ASSISTANCE TO SPIRITUAL AND RELIGIOUS ORGANIZATIONS

In 2014, OMK lent aid to the Vyksa Eparchy of the Russian Orthodox Church, including maintenance of the "Kolokolchik" Orthodox kindergarten and Religious school.

In 2014, the company helped the church renovate the Icon of the Mother of God "Quick to Hearken" Cathedral in the village of Novosineglazovsky (Chelyabinsk) and erect the Virgin Mary Cathedral in Chusovoy (Perm Region).

### SUPPORT FOR EDUCATIONAL PROGRAMMES AND INSTITUTIONS

OMK Support for educational programmes and institutions, mln rub.



OMK's priority is to create a modern-day educational environment for the rising generation. The major objectives of the company in this field include career guidance, enlightenment, vigorous promotion and use of state-of-the-art technologies, methods and facilities in training and education.

In 2014, OMK delivered joint projects in concert with the following organizations in our operating areas: branches of the Nizhny Novgorod State Technical University and National University of Science and Technology MISiS in Vyksa, Vyksa Polytechnic College, a branch of Chelyabinsk Motor Transport College in the village of Novosineglazovsky and other educational institutions. The company helped open a branch of the Ural Federal University in Chusovoy.

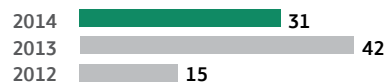
OMK programmes transpire all levels of education. In all operating cities, the company funds knowledge days and career guidance events in schools. Furthermore, the company annually holds Magic of Science and a Creativity Festival for Vyksa children and their parents.

In 2014, OMK, in collaboration with the National University of Science and Technology MISiS, released the last sixth volume of the "Metallurgy and Time" Encyclopedia, a project launched in 2011. The encyclopedia was acclaimed as the best publishing project as part of the National Award "Best Books and Publishing Houses 2014." In 2014, OMK, in further collaboration with the National University of Science and Technology MISiS, backed promotion of the Metalspace.ru web portal.

## 6.5. DEVELOPMENT OF OPERATIONS AREAS

### CULTURE SUPPORT

Culture programmes support, mln rub.



We support projects intended to restore cultural heritage sites and to promote present-day movements and trends in the contemporary culture and art.

The list of largest OMK-funded events and projects includes the Art-Ovrag New Culture Festival, city holidays and events, children's creativity competitions, rock festivals and festivals of amateur singers and composers, a road tour of the Central Academic Theatre of the Russian Army, Russian Seasons in Vyksa (Nizhny Novgorod Region) and musical performances.

### ART-OVRAG FESTIVAL

OMK and OMK-Uchastie Charity Fund have been holding the Art-Ovrag annual new urban culture festival in Vyksa since 2011. The project is intended to develop a new urban space by providing conditions for the implementation of social initiatives of city inhabitants in culture and education.

This is a year-round festival site for education, upbringing and the unlocking of the cultural and artistic potential of the town's inhabitants. The festival includes different cultural fields: visual art, architecture, music, dancing, together with some of the latest trends in the youth subcultures. The 2014 slogan is "Coming to Meet People", while its major objective is to ensure maximum engagement of people in festival processes.

In 2014, the festival included nine different areas – theatre, music, architecture, street art, partizaning, dancing, sports, Art-Meal and Art-Yard – in all, over 50 events. The number of the Art-Ovrag attendees and participants exceeded 8,000 people.

The festival is held under the auspices of the Ministry of Culture of the Russian Federation.

### CORPORATE VOLUNTEERING

OMK is considering corporate volunteer services as one of the ways to self-unlock the personal potential of its employees, to enable them to gain public recognition, strengthen social importance and acquire useful social and practical skills. Corporate volunteer services for us are an opportunity for personal interaction with colleagues, strengthening team morale, one of the ways to adapt personnel, a chance to express one's own public stance.

In 2014, the company developed and approved the programme on the development of corporate volunteer services among OMK employees.

All OMK businesses held volunteering events throughout the year, such as tree planting, site improvements, assistance to seniors and veterans, disadvantaged social groups, quarterly blood donor initiatives.

## 6.5. DEVELOPMENT OF OPERATIONS AREAS

### OMK-UCHASTIE CHARITY FUND

OMK-Uchastie (OMK-Participation) Charity Fund is a nonprofit organization set up by OMK shareholders and employees. The key purpose of the fund is the targeted aid to families in difficult straits and the implementation of community projects in OMK's operations areas.

In 2014, the fund offered targeted aid of over 3 mln. rubles to 36 families.

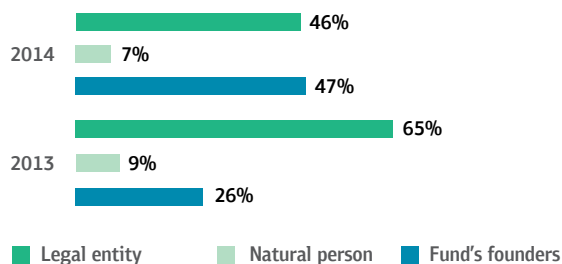
In August 2014, the fund sponsored the "School of Survival" workshop for disabled people organized by the Vyksa-headquartered organization of young disabled people "Edelweiss" and the Ramenskoye-headquartered club of disabled people "Vzlyot." There were about 40 workshop attendees.

In December, OMK-Uchastie held two traditional fundraisers. The Nikulin Moscow Circus on Tsvetnoy Boulevard hosted a fundraiser, which was attended by over 700 children from disadvantaged families from Vyksa, Moscow, Kaluga and Tula regions and children of employees from OMK's Moscow office.

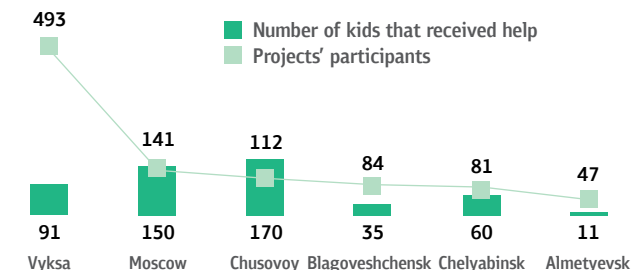
In December, all operations areas hosted the "Every little X-mas tree helps" fundraiser, a New Year's festivity for children in difficult straits, under the auspices of the company's employees.

In 2015, the fund will continue to undertake primary projects in OMK's operations areas launched in previous years.

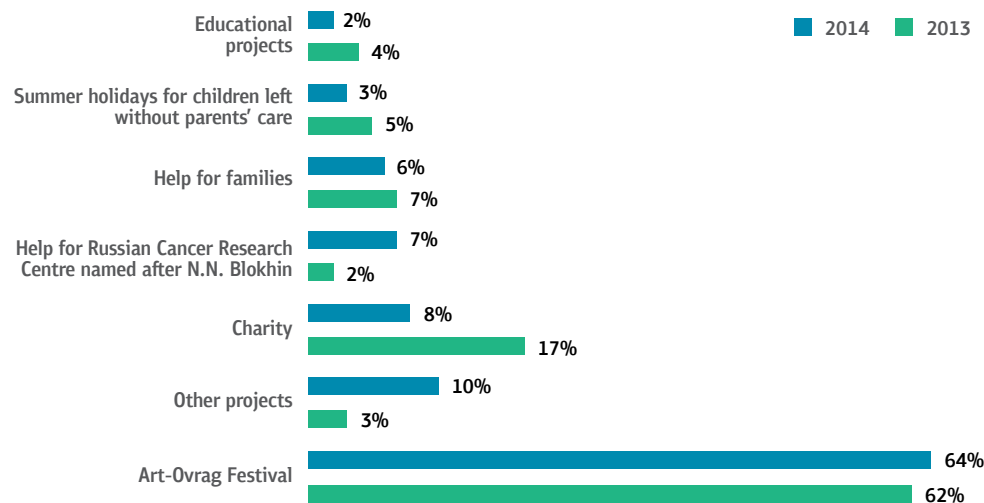
Structure of sources of revenues for OMK-Uchastie Fund



OMK-Uchastie Chairy Fund's results in 2014



Cost structure of OMK-Uchastie Fund in 2013-2014



## 6.5. DEVELOPMENT OF OPERATIONS AREAS

### RECOGNITION OF OMK'S CONTRIBUTION TO CORPORATE CHARITY DEVELOPMENT

Based on the 2014 performance, OMK received the following awards:

- The "Leaders of Corporate Charity 2014" Contest, an award winner in the "Objective Charity" Photo Contest;
- An award winner in the "Nizhny Novgorod Phoenix 2014" Philanthropist Contest in the "Firm of Goodwill" nomination;
- A Certificate of Commendation issued by the Government of Nizhny Novgorod region for support and development of regional sports;
- A Certificate of Commendation issued by the Ministry of Culture of Nizhny Novgorod region for contribution to the development of the historical and cultural heritage of the region;
- A Certificate of the "Intermuseum 2014" Contest for our contribution to the development of the regional culture;
- "Leader in the Tourism Industry of Nizhny Novgorod region" in the nominations: "Best Museum Programme" for "Getting to Know the Batashyov-Shepelyov Industrial Estate" and "Best Website of the Tourism Industry Subject";
- "Word Shapers" Social Achievement Contest in the "Best Employer" nomination (Legislative Assembly of Chelyabinsk region).

### DEVELOPMENT PROSPECTS

The company's corporate programmes rely on professional experience and human potential, nonprofit and state-funded organizations and local communities operating in the regions. Furthermore, the company has a clear understanding that charity and sponsorship should not give rise to social dependency.

Having analyzed the budget for sponsorship and charity programmes in 2011-2014 and the effectiveness of our social investments, we decided to move away from conventional charity tools based on targeted aid and patronage to the social partnership, a system of charity and engagement of local communities and OMK employees in delivery of projects in our operations areas.

This is precisely why, in 2015, the company plans to conduct a pilot open grant competition for social and charity projects called "OMK-Partnership", which will allow OMK to gain benefits from social investments and provide conditions for changes in operations areas.

## 7. ABOUT REPORT

The 2014 annual report of JSC OMK is unlike any other previous reports of the Group. Every year before 2014, the OMK Group issued annual reports, which were solely focused on economic and operating activities of the company.

Based on the analysis of opinions voiced by the parties concerned and international corporate reporting trends, it was resolved to draft a consolidated annual report of the OMK Group for the year 2014 (hereinafter referred to as the Report), incorporating a comprehensive description of financial and nonfinancial results of the reporting period.

The Report is primarily intended to inform the parties concerned of all material aspects of operations of the OMK Group and disclose information in accordance with recommendations of the Reporting Guideline of the Global Reporting Initiative, ver. 4.0 Basic (hereinafter referred to as the GRI Guideline) and industry-specific appendix thereto for mining and smelting companies.

As part of the contents of the Report, the Group adhered to the concept of materiality, coverage of the parties concerned, context of sustainable development and completeness in accordance with recommendations of the GRI Guideline.

In order to ensure quality of the Report, the Group was geared to accounting equation, comparability, accuracy, timeliness, clarity and reliability of the GRI Guideline.

A major feature of the fourth version of the GRI Guideline is disclosure of information, which is important and material for the parties concerned.

The key groups of OMK's parties concerned include:

- **State: regional legislative and executive authorities, local authorities, tax authorities, municipal unitary enterprises, government-funded organizations, federal organizations;**
- **Personnel: top management, executives, personnel, key staff, trade union organizations;**
- **Shareholders and investors: creditors, shareholders and investors;**

- **Business partners and clients: clients, suppliers, competitors, other business entities;**
- **Local community: population of operations areas, public organizations and associations, nonprofit partnerships;**
- **Mass media.**

The parties concerned were promptly informed of principal developments, operating results, future development of OMK businesses during the reporting period.

By taking part in business meetings, conferences, roundtables and other events and using electronic communications channels, OMK professionals cooperated with the parties concerned in order to evaluate and analyze their information needs.

In the Report, the company discloses information on material aspects of its operations subject to reasonable expectations and interests of the parties concerned, economic and organizational feasibility of this or that information.

Material aspects of operations means lines of business, which affect or may affect decision-making by the parties concerned and are deemed to be a risk or an opportunity for OMK from the viewpoint of sustainable development.

As the company evaluated materiality, it analyzed opinions voiced by the parties concerned, reports of Russian and international mining and smelting companies, public information space, industry-specific trends and internal documents. Based on evaluations thus received, a group of experts ranged a list of material aspects of operations and made up a list of substantive issues for disclosure in the report.

The report discloses data on all OMK businesses and companies, unless indicated otherwise.

In order to improve the quality of its reporting, the company suggests evaluating the report and filling in the feedback form at OMK's website. This will make it possible for us to pinpoint reporting areas for improvement and define topic for disclosure in the next reporting periods.

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page
<b>General standard reporting elements</b>				
Strategy and analysis				
G4-1	Statement by the Chairman of the Management Board on the importance of sustainable development for the company and strategy employed by the company in handling sustainable development issues	1.5 Chairman of the Management Board Statement	Disclosed	11-13
G4-2	Description of key effects, risks and opportunities	1.6 OMK President Statement 2.5 Challenges 4.5 Risk Management	Disclosed	14-16 22 36-37
Corporate profile				
G4-3	Company name	Full company name – Joint Stock Company United Metallurgical Company, short company name – JSC OMK	Disclosed	
G4-4	Key brands, products and services	1.1 About the Company	Disclosed	4-6
G4-5	Headquarters address	28, Ozerkovskaya Embankment, bldg. 2, Moscow, 115184	Disclosed	
G4-6	Number of countries, in which the company operates, and names of countries, in which the company has its core business or which are particularly important from the viewpoint of sustainable development covered by the report	1.1 About the Company 3. Market Overview	Disclosed	4 27-29
G4-7	Nature of property and form of incorporation	4. Corporate Governance	Disclosed	31-32
G4-8	Markets, in which the company operates (including geographic breakdown, industries served and categories of consumers and beneficiaries)	1.1 About the Company 3. Market Overview	Disclosed	4 27-29
G4-9	Scale of the Company	1.1 About the Company 1.2 Best Projects 5.1 Financial Results of the Company 5.3 Operating Results of the Company in 2014	Disclosed	4-8  39 42-43

Index	About the index	Index disclosure	Comments	Page
G4-10	Total staff	6.2 Human Resources	Disclosed	60-63
G4-11	Share of employees covered by collective employment agreements	Collective employment agreements are in effect in all OMK businesses, which have trade union organizations.	Disclosed	
G4-12	Description of the company's supply chain	2.3 Business Model	Partially disclosed	20
G4-13	Description of material changes in scales, structure or property of the company or its supply chain, which took place during the reporting period	1.3 Major Milestones in 2014	Disclosed	9
G4-14	Explanations as to whether the company employs the precautionary principle and if so, in what manner	6.1 Approach to Sustainable Development	Disclosed	59
G4-15	Economic, environmental and social charters, principles or other initiatives developed by external parties, which charters, principles or initiatives the company joined or supports	6.1 Approach to Sustainable Development. In 2014, the company followed ISO 9000, ISO 14000, OHSAS 18000 principles	Disclosed	59
G4-16	Membership of associations and/or national and international organizations intended to protect interests	1.3 Major Milestones in 2014	Disclosed	9
Material aspects and limits detected				
G4-17	List of all legal entities, reports of which were made part of consolidated financial accounts or similar documents. Statement as to whether the report lacks for information on any legal entity in the field of sustainable development, accounts of which entity were made part of consolidated financial accounts or similar documents	The report includes information on all legal entities, incorporated into consolidated financial accounts.	Disclosed	

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page
Material aspects and limits detected				
G4-18	Explanation of the methodology applied to define the contents of the report and limits of aspects Explanation of how the company applied reporting preparation principles when defining the contents of the report	7. About the Report	Disclosed	94
G4-19	List of all material aspects identified when the company defined the contents of the report	Table of Contents	Disclosed	2
G4-20	Description of each material aspect of the aspect limit inside the company	Information on material aspects disclosed by all companies of the OMK Group, unless indicated otherwise.	Disclosed	
G4-21	Description of each material aspect of the aspect limits outside the company	The report does not disclose any information on material aspects outside the company.	Disclosed	
G4-22	Statement on effects from all rewordings of indices published in previous reports and on causes for such rewordings	No rewordings available.	Disclosed	
G4-23	Statement on material changes in coverage and aspect limits compared to previous reporting periods	No material changes in coverage and aspect limits took place. When analyzing data, please, consider the drop in output and shutdown of some production facilities at JSC CMW.	Disclosed	
Interaction with the parties concerned				
G4-24	List of groups of the parties concerned, which the company interacts	7. About the Report	Disclosed	94
G4-25	Description of identification and selection of the parties concerned for interaction	7. About the Report	Disclosed	94

Index	About the index	Index disclosure	Comments	Page
G4-26	Description of the company's approach to interaction with the parties concerned, including interaction frequency by forms and groups concerned, and statement if any elements of interaction were undertaken intentionally as part of the report preparation process	1.5 Chairman of the Management Board Letter 1.6 OMK President Letter 6. Sustainable development efforts 7. About the Report  The company interacts with contractors in line with the Contractor Interaction Policy	Disclosed	11-13 14-16 59, 64, 68, 71-72, 75-76, 82, 85-86, 94
G4-27	Description of key topics and concerns, which have been raised by the parties concerned as part of their interactions with the company, and of how the company reacted to these key topics and concerns, including by means of its reporting preparation	1.5 Chairman of the Management Board Letter 1.6 OMK President Letter 6.1 Approach to Sustainable Development 6.2 Human Resources	Disclosed	11-13 14-16 59 71-72
General information on the report				
G4-28	Reporting period	7. About the Report	Disclosed	94
G4-29	Date of the previous sustainable development report	7. About the Report	Disclosed	94
G4-30	Reporting cycle	7. About the Report	Disclosed	94
G4-31	Contacts for questions regarding the report or its contents	9. Contacts	Disclosed	103
G4-32	Variant for the report preparation in accordance with the GRI Guideline selected by the company	7. About the Report	Disclosed	94
G4-33	The company's policy and practice applied to ensure external certification of sustainable development reports	The company does not have the 2014 annual report certified externally.	Disclosed	
Corporate Governance				
G4-34	Structure of the company's corporate governance, including committees of the supreme body of corporate governance. Committees, responsible for making decisions on economic, environmental and social impacts produced by the company	4. Corporate Governance	Disclosed	32-34

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page
<b>Ethics and fair practices</b>				
G4-56	Description of the company's values, principles, standards and rules of conduct, such as codes of conduct and codes of ethics	4. Corporate Governance	Disclosed	32
		6.1 Approach to Sustainable Development		59
		6.3 Occupational Safety		73
		6.5 Development of Operations Areas		86
<b>Specific standard reporting elements</b>				
<b>Economic Category</b>				
	Information on management approaches	1.5 Chairman of the Management Board Letter 1.6 OMK President Letter 4. Corporate Governance 6.1 Approach to Sustainable Development	Disclosed	11-13 14-16 32-35 59
G4-EC1	Direct economic cost created and distributed	1.4 Annual Performance 6.2 Human Resources	Partially disclosed	10 61-62
G4-EC3	Security for the company's obligations related to pension plans with fixed benefits	6.2 Human Resources	Partially disclosed	67
G4-EC7	Development and impact of infrastructure investments and gratuitous services	6.5 Development of Operations Areas	Disclosed	86-93
G4-EC8	Material indirect economic impacts, including the reach	6.5 Development of Operations Areas	Disclosed	86-93
<b>Environmental Category<sup>1</sup></b>				
G4-EN3	Energy consumption inside the company		Disclosed	

Table 1

Total energy consumption by divisions, including process needs, heating, lighting, etc.

Division	Unit	2013	2014	Change
Almetyevsk Pipe Plant Division (APP)	GJ	352.619.00	391.340.20	↑ 11%
Large Diameter Pipe Division (LDP)	GJ	2.546.673.36	2,855,377.09	↑ 12%
Railway Wheels Division (RW)	GJ	5,196,599.26	3,385,788.62	↓ 35%
Oil and Gas Pipe Division (OGP)	GJ	7,426,651.89	7,386,065.46	↓ 1%
Fittings and Valves Division (FV)	GJ	1,464,102.26	1,417,017.49	↓ 3%
Chusovoy Metallurgical Works Division (CMW)	GJ	6,329,272.23	3,990,784.60	↓ 37%
North America Division (OMK NA)	GJ	н/д	н/д	
<b>Summary</b>				
Division	Unit	2013	2014	Change
Total electric energy consumption	GJ	5,643,144.51	5,737,659.66	↑ 2%
Total thermal energy consumption	GJ	3,625,433.86	2,972,887.58	↓ 18%
Total consumption of organic fossil fuels (non-renewable energy sources) used to generate energy	GJ	16,266,900.00	13,030,817.04	↓ 20%
<b>Total: Total energy consumption</b>	<b>GJ</b>	<b>25,535,478.37</b>	<b>21,741,364.29</b>	<b>↓ 15%</b>
<b>Breakdown by Division</b>				
Electric energy consumption in LDP Division	MWh	267,751.20	277,680.43	↑ 4%
Thermal energy consumption in LDP Division	Gcal	67,955.00	74,592.80	↑ 10%
Electric energy consumption in RW Division	MWh	98,725.66	58,198.17	↓ 41%
Thermal energy consumption in RW Division	Gcal	76,697.06	61,072.93	↓ 20%
Electric energy consumption in OGP Division	MWh	795,920.00	877,088.17	↑ 10%
Thermal energy consumption in OGP Division	Gcal	103,942.00	105,552.70	↑ 2%
Electric energy consumption in FV Division	MWh	61,987.16	62,715.01	↑ 1%
Thermal energy consumption in FV Division	Gcal	111,552.00	92,311.00	↓ 17%
Electric energy consumption in APP Division	MWh	29,336.95	29,483.33	0%
Thermal energy consumption in APP Division	Gcal	24,970.00	30,647.00	↑ 23%
Electric energy consumption in CMW	MWh	118,717.09	87,178.49	↓ 27%
Thermal energy consumption in CMW	Gcal	290,698.00	216,708.00	↓ 25%

<sup>1</sup> Disclosures of information in the Environmental Category require standards and methods corresponding to environmental laws of the Russian Federation, unless indicated otherwise.

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page
G4-EN6	Energy consumption curtailment		Disclosed	
<p>In 2010-2014, JSC VSW held 68 different events and energy-saving projects to curtail consumption of principal resources (gas, electric energy, water, fuel oil, thermal energy). The funding allocated for the energy-saving and energy efficiency projects totals 348 mln. rubles with 38.5 mln. rubles allocated in the reporting year.</p> <p>Key projects: commissioning of new compressors at the compressor station 2; modernization of compressed air units; commissioning of drying units at the compressor station 2, 4; commissioning of the self-contained compressor at the Electric Repair Shop, self-contained compressor of the slitting unit, 1.2 mills of the Electric-Weld Pipe Shop 2; replacement of steam with electric heating, insulation of steam lines, performance optimization; insulation of all types of heat pipelines, optimization of modes of networks and fuel-consuming units.</p> <p>CMW, Trubodetal, BVP, APP, OMK-Steel held 49 events according the annual energy-saving plans of divisions. The funding totaled 32.3 mln. rubles in 2014.</p>				
Index	Unit	2013	2014	Change
Total amount of energy saved upon implementation of the energy efficiency programme	GJ	397,151.32	167,806.57	↓ 58%
• Total electric energy saving	GJ	204,152.40	65,306.95	↓ 68%
• Total thermal energy saving	GJ	192,998.92	102,499.62	↓ 47%
Total fuel saving	GJ	475,471.00	140,851.32	↓ 70%
Total amount of energy saved	GJ	872,622.32	308,657.89	↓ 65%
Index	About the index	Index disclosure	Comments	Page
G4-EN8	Total amount of water abstracted as broken down by sources		Disclosed	
Index	Unit	2013	2014	Change
Water abstraction from all sources, including:	thous. m <sup>3</sup>	20,861.330	14,039.410	↓ 33%
• Water abstraction from underground sources	thous. m <sup>3</sup>	3,047.160	3,244.880	↑ 6%
• Water abstraction from surface sources	thous. m <sup>3</sup>	16,880.480	10,001.560	↓ 41%
• Water intake from water supply networks of other companies, including:	thous. m <sup>3</sup>	859.240	721.480	↓ 16%
— From surface sources	thous. m <sup>3</sup>	661.490	525.150	↓ 21%
— From underground sources	thous. m <sup>3</sup>	197.750	196.330	↓ 1%

Index	Unit	2013	2014	Change
• Intake of rainwater collected and stored by the company	thous. m <sup>3</sup>	0.000	0.000	
• Wastewater disposal	thous. m <sup>3</sup>	74.450	71.490	↓ 4%
Index	About the index	Index disclosure	Comments	Page
G4-EN12	Description of material effects produced by operations, products and services on the biodiversity in conservation areas and areas with high value of biodiversity outside conservation areas	Whenever types of operations affecting environment are identified, all stages of business activities are taken into consideration. The businesses installed a system designed to identify and manage material environmental aspects directed to decrease detrimental environmental effects. No vulnerable ecosystems available.	Disclosed	
G4-MM1	Total area of lands owned or rented and used for manufacturing or production, disturbed or remediated		Disclosed	
Issue	Unit	2013	2014	Comments
Total lands disturbed but not yet remediated and rehabilitated	ha	192.40	193.30	Disturbed lands of CMW as of January 1, 2014
Total lands disturbed in the reporting period	ha	0.90	0.80	
Total lands remediated or rehabilitated in the reporting period	ha	–	–	
Total lands disturbed in the reporting period	ha	193.3	194.1	Disturbed lands of CMW as of January 1, 2015

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page
G4-EN15	Direct greenhouse gas emissions (scope 1)	Quantitative quadrivalent carbon oxide (CO <sub>2</sub> ) emission may not be presented, as CO <sub>2</sub> emissions from standard sources are not capped by the existing Russian laws.	Not disclosed	
G4-EN16	Indirect energy greenhouse gas emissions (scope 2)			
G4-EN19	GHG reductions			
G4-EN21	Air emissions of NO <sub>x</sub> , SO <sub>x</sub> and other important contaminants	6.4 Environmental Safety	Disclosed	84-85
G4-EN22	Total emissions indicating the quality of wastewater and the intake facility		Disclosed	

Index	Unit	2013	2014	Change
Utility fluid disposal	thous. m <sup>3</sup>	6,708.82	3,377.21	↓ 50%
Industrial effluent disposal, including:	thous. m <sup>3</sup>	12,719.93	7,991.79	↓ 37%
• Via its own centralized water disposal system, including:	thous. m <sup>3</sup>	12,561.25	7,912.45	↓ 37%
— Into surface water bodies, including:	thous. m <sup>3</sup>	12,421.77	7,842.71	↓ 37%
Effluents treated to standard quality and partially clean effluents	thous. m <sup>3</sup>	0.00	0.00	
Polluted effluents and poorly cleaned effluents	thous. m <sup>3</sup>	12,421.77	7,842.71	↓ 37%
— into terrain relief	thous. m <sup>3</sup>	139.48	69.74	↓ 50%
• Via the centralized water disposal system of third-party organizations, including:	thous. m <sup>3</sup>	142.98	71.49	↓ 50%
— Into surface water bodies, including:	thous. m <sup>3</sup>	142.98	71.49	↓ 50%
Effluents treated to standard quality and partially clean effluents	thous. m <sup>3</sup>	0.00	0.00	
Polluted effluents and poorly cleaned effluents	thous. m <sup>3</sup>	142.98	71.49	↓ 50%

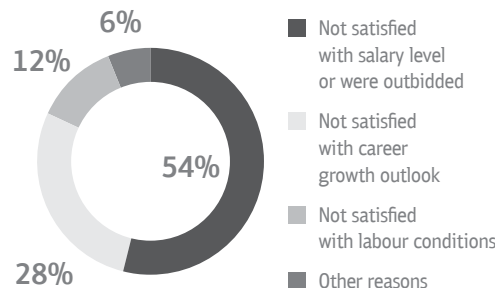
Index	About the index	Index disclosure	Comments	Page
G4-EN15	Total mass of waste as broken down by types and methods of circulation		Disclosed	

Issue	Unit	2013	2014	Change
Waste available as at the start of year	tons	20,242,372.77	20,025,830.35	↓ 1,1%
Identified and specified in the current period	tons	0.00	0.00	
Annual waste production	tons	1,186,689.40	1,199,456.87	↑ 1,1%
Accepted due to reorganization of another legal entity	tons	0.00	0.00	
Waste accepted from third-party organizations (fully owned and without transfer of ownership)	tons	123,311.30	86,618.04	↓ 29,8%
• Accepted from third-party organizations of the Company	tons	95,019.62	80,955.24	↓ 14,8%
Annual waste utilization	tons	843,661.27	591,119.88	↓ 29,9%
• Utilized by third-party organizations	tons	564,827.91	610,673.70	↑ 8,1%
Waste neutralization and recycling	tons	41,514.60	35,913.35	↓ 13,5%
• By third-party organizations	tons	151,531.11	206,645.00	↑ 36,4%
Total waste buried	tons	54,195.32	44,650.84	↓ 17,6%
• By third-party organizations	tons	97,010.06	116,684.03	↑ 20,3%
Transferred into ownership	tons	344,758.58	405,263.64	↑ 17,5%
Waste available as at the end of year	tons	20,035,069.36	19,953,980.94	↓ 0,4%
Waste transferred to third-party organizations	tons	667,496.07	739,302.81	↑ 10,8%
• Total waste transferred to third-party organizations of the Company	tons	167,558.21	174,424.98	↑ 4,1%

Index	About the index	Index disclosure	Comments	Page
G4-EN29	Monetary value of substantial fines and total number of nonfinancial sanctions imposed for a failure to observe environmental laws and statutory requirements	Fines charged for violations of environmental laws totaled 430,000 rubles in 2014, and 24,000 rubles in 2013. In 2014, the amount rose due to fines imposed on BVP for environmental violations based on the findings of the scheduled inspection held by the Federal Service for Supervision of Natural Resource Usage.	Disclosed	

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page
G4-EN31	Total environmental safety expenses and investments as broken down by types	6.4 Environmental Safety	Disclosed	82
<b>Social Category</b>				
Practice of employment relations and decent work subcategory				
Highly skilled labour power intake and retention programmes and processes		6.2 Human Resources	Disclosed	68-71
Policies and procedures designed to ensure occupational safety and safe work of the regular staff and employees of contractors and subcontractors		6.2 Human Resources 6.3 Occupational Safety	Disclosed	73-80
G4-LA1	Total number and percentage of newly hired employees and personnel turnover as broken down by age, sex and region		Partially disclosed	
Personnel turnover level (%) and major personnel turnover reasons				
Company	2013	2014	(% of 100% of examined)  <ul style="list-style-type: none"> <li>■ Not satisfied with salary level or were outbid</li> <li>■ Not satisfied with career growth outlook</li> <li>■ Not satisfied with labour conditions</li> <li>■ Other reasons</li> </ul>	
OJSC VSW	5.8%	6.1%		
Branch of OMK-Steel (CRC)	8.8%	3.7%		
OJSC Trubodetal	5.0%	9.7%		
OJSC BVP	22.4%	16.5%		
OJSC CMW	7.8%	5.6%		
OJSC APP	13.8%	11%		
Moscow office	15.3%	10.6%		
Branch of Trubodetal in Chusovoy	4.0%	6.4%		
Total:	9.5%	6.7%		
Index	About the index	Index disclosure	Comments	Page
G4-LA2	Benefits offered to full timers, which are not offered to part-time employees or temporarily employed workers, as broken down by important operations areas of the company	6.2 Human Resources	Disclosed	66-67

Index	About the index	Index disclosure	Comments	Page
G4-LA4	Minimum period of notification regarding material changes in the company's operations and if such period is defined in the collective employment agreement	Minimum period of notification regarding material changes in the company's operations corresponds to the laws of the Russian Federation.	Disclosed	82
G4-MM4	Number of strikes lasting for over a week as broken down by operations areas	In 2014, there were no strikes lasting for over a week.	Disclosed	
G4-LA5	Share of total personnel represented in official joint committees for health and safety featuring representatives of top management and employees, taking part in monitoring and voicing recommendations on the occupational health and safety programs	Trades unions operating in all OMK businesses represent employees in joint committees for occupational and health safety.	Disclosed	
G4-LA6	Types and level of occupational injuries, level of occupational diseases, lost day rate and absentee rate and total number of occupational fatalities as broken down by regions and sex	6.3 Occupational Safety	Partially disclosed	78-79
G4-LA8	Health and safety issues reflected in official agreements with trades unions	Health and safety issues have been reflected in collective employment agreements in effect in OMK businesses	Disclosed	
G4-LA9	Annual average training hours per an employee as broken down by sex and categories of employees	6.2 Human Resources  Man-courses data may be provided in accordance with the internal accounting methodology.	Partially disclosed	62, 69
G4-LA10	Programmes on development of skills and training throughout life intended to support propensity of employees for employment and assist them in career endings	6.2 Human Resources	Disclosed	67-71

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Index	About the index	Index disclosure	Comments	Page		
G4-LA11	Share of employees, for whom the company holds periodic performance and career development evaluations, as broken down by sex and categories of employees	6.2 Human Resources	Partially disclosed	68		
G4-LA12	Membership of governing bodies and general categories of the company's personnel as broken down by sex, age and other diversity attributes		Disclosed			
Staff strength as of December 31, 2014						
	Male	Female	Total	Aged under 30	Aged 30-50	Aged over 50
Executives	1,616	491	2,107	197	1,467	443
Top managers	66	11	77	1	50	26
Specialists and employees	2,380	3,408	5,788	1,389	3,343	1,056
Workers	12,846	6,280	19,126	4,903	10,148	4,076
Staff strength as of December 31, 2013						
	Male	Female	Total	Aged under 30	Aged 30-50	Aged over 50
Executives	1,729	509	2,238	230	1,508	500
Top managers	67	10	77	1	50	26
Specialists and employees	2,202	3,357	5,559	1,430	3,059	1,070
Workers	13,286	6,713	19,999	5,252	10,392	4,355
Human rights subcategory						
G4-HR1	Total number and percentage of important investment agreements and contracts, which incorporate provisions on human rights protection or which have been evaluated from the viewpoint of human rights	All agreements and contracts of the company are checked for compliance with the legislation. No special human rights evaluation held in 2014.	Disclosed			
G4-HR3	Total number of discrimination cases and actions taken	OMK found no discrimination cases in the reporting period.	Disclosed			

Index	About the index	Index disclosure	Comments	Page
G4-HR4	Subdivisions and suppliers identified by the company as organizations, which could violate human rights to association and sign collective employment agreements or which have a high risk of violation of these rights and actions taken to protect these rights	OMK found no violations of human rights to association and sign collective employment agreements in the reporting period.	Disclosed	68
G4-HR5	Subdivisions and suppliers identified by the company as organizations, which have a high risk of employment of children and actions taken to eradicate employment of children	OMK does not employ children. In accordance with the laws of the Russian Federation, OMK is neither responsible for operations of suppliers nor does it conduct such evaluations.	Disclosed	
G4-HR6	Subdivisions and suppliers identified by the company as organizations, which have a high risk of use of forced or compulsory labour and actions taken to eradicate use of forced or compulsory labour	OMK does not use forced or compulsory labour. In accordance with the laws of the Russian Federation, OMK is neither responsible for operations of suppliers nor does it conduct such evaluations.	Disclosed	
G4-HR10	Percentage of new suppliers, which are assessed and which passed evaluations on criteria for observance of human rights	6.3 Occupational Safety  Today, OMK does not evaluate new suppliers by criteria for observance of human rights.	Disclosed	80
G4-HR12	Total complaints about impact on observance of human rights filed, processed and settled by official complaint application mechanisms	In 2014, OMK had 12 court rulings regarding violations of employment laws, of which 1 group and 11 individual claims were settled.	Disclosed	

## 8. ARRANGEMENT OF STANDARD ELEMENTS OF THE GRI GUIDELINE

Society subcategory				
Index	About the index	Index disclosure	Comments	Page
G4-S02	Subdivisions with significant actual or potential adverse effect on local communities	6.4 Environmental Safety	Disclosed	82-85
G4-S03	Total number and percentage of subdivisions, which underwent corruption risk assessments and substantial risks detected	There were no such assessments in 2014. The company's anti-corruption efforts rely on provisions of the Business Integrity Declaration of JSC OMK.	Disclosed	
G4-S04	Information about and training in anti-corruption rules and methods	The company's anti-corruption efforts rely on provisions of the Business Integrity Declaration of JSC OMK.	Disclosed	
G4-S05	Corruption cases confirmed and actions taken	There were no corruption cases confirmed in 2014.	Disclosed	80
Production responsibility subcategory				
G4-PR1	Percentage of valuable production and services categories, whose impact on safety and health are being evaluated to find solutions to get better	The company's production is certified according to international quality standards. All types of OMK production are being evaluated in terms of safety and health impact and are being improved all the time	Disclosed	
G4-PR5	Consumer satisfaction evaluation findings	1.3 Major Milestones in 2014		9

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