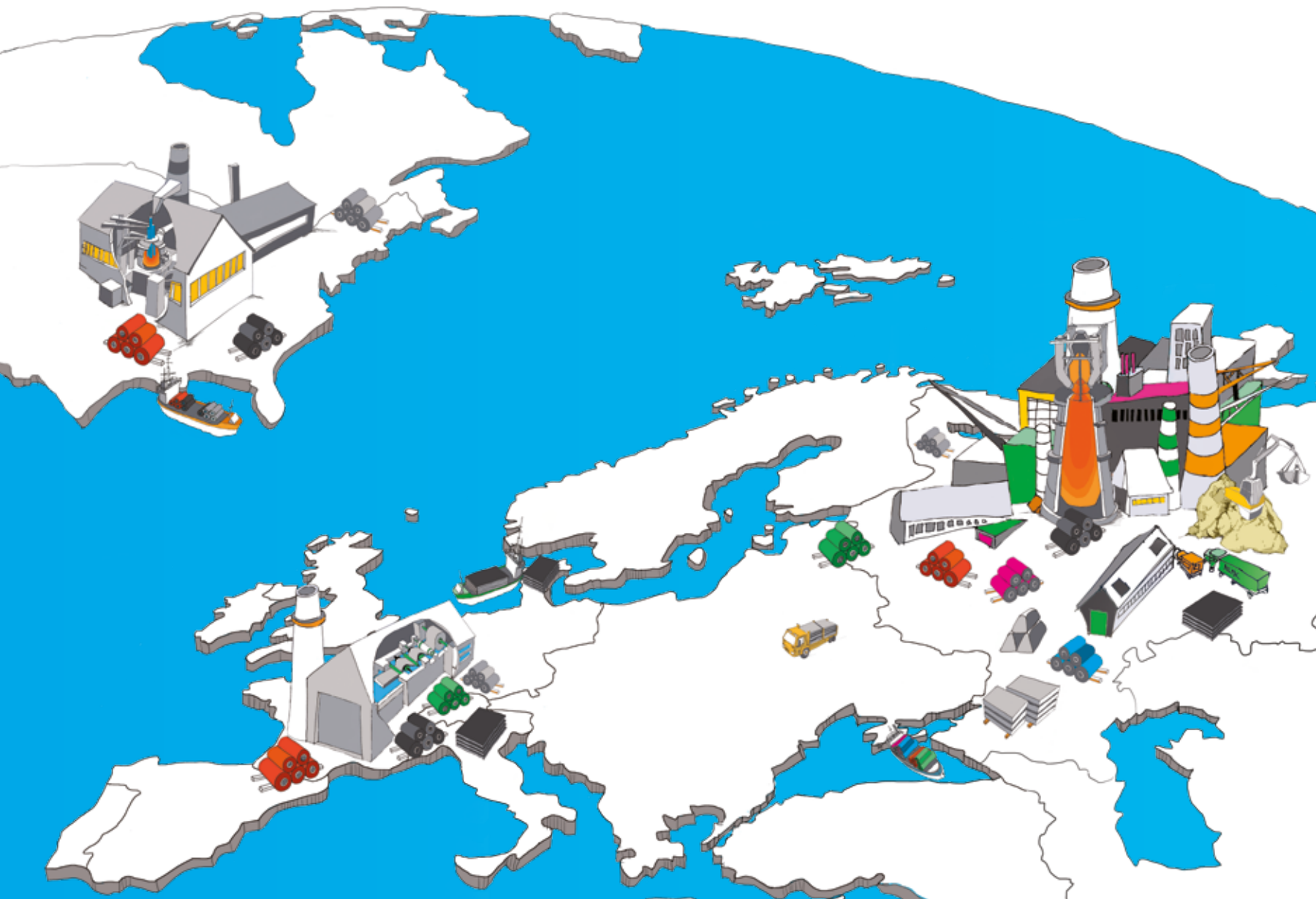




# VALUE THROUGH INTEGRATION



NLMK is a vertically integrated steel company with assets ranging from upstream operations, to efficient steelmaking, to downstream with leading positions in the key product niches. The Company has a diversified portfolio of products, with a strong presence in many industry sectors in export and domestic markets.

Open the flap to reveal  
our product mix

## KEY TO PRODUCT ILLUSTRATIONS

Throughout the report we have used illustrations to showcase our products and the benefit of vertical integration

|  |                                 |
|--|---------------------------------|
|    | TRANSFORMER STEEL               |
|    | DYNAMO STEEL                    |
|    | PRE-PAINTED STEEL               |
|    | GALVANISED STEEL                |
|    | COLD-ROLLED STEEL AND FULL HARD |
|    | THICK PLATES                    |
|    | HOT-ROLLED STEEL                |
|   | SLABS                           |
|  | METALWARE                       |
|  | WIRE ROD                        |
|  | REBAR                           |
|  | FORGED INGOTS                   |
|  | BILLETS                         |
|  | PIG IRON                        |
|  | IRON ORE CONCENTRATE            |
|  | SINTER ORE                      |
|  | COKE                            |
|  | SCRAP                           |
|  | LIMESTONE                       |
|  | DOLOMITE                        |

NLMK shares are listed on the Russian stock exchange RTS – MICEX, and are also traded on the London Stock Exchange (in the form of GDSs).

### NLMK tickers

#### Reuters

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

#### Bloomberg

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

We have introduced navigational aids throughout the report for further information



Links to pages in the Annual Report



Links to further content online



Links to other corporate documents



Links to video material online



Icon to indicate KPIs throughout the report

12 FOR INFORMATION ON OUR PRODUCT USES IN EVERYDAY LIFE

128 FOR OUR KEY PRODUCTS WITH DETAILED DESCRIPTIONS

## ABOUT NLMK

NLMK is a leading international steel company strategically designed around a vertically integrated business model. A high level of self-sufficiency in key raw materials and energy ensures a low cost level of production, concentrated in the Central District of Russia. In addition, NLMK's rolling mill assets are located in close proximity to our key consumers in Russia, the USA and the EU.

NLMK produces a wide range of steel products conforming to international quality standards. Furthermore, our flexible production chain, efficient distribution network and extensive geography of sales ensures that we are able to respond rapidly to changes in market demands.

As part of our Strategy for Sustainable Growth, we are investing heavily into consolidating and developing our competitive advantages. In 2011, we expanded production capacity at our main site in Lipetsk, as well as strengthening our international presence in Europe and the USA. We are planning to further expand our steelmaking and rolling capacities and to improve our resource self-sufficiency.

## OUR MISSION

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

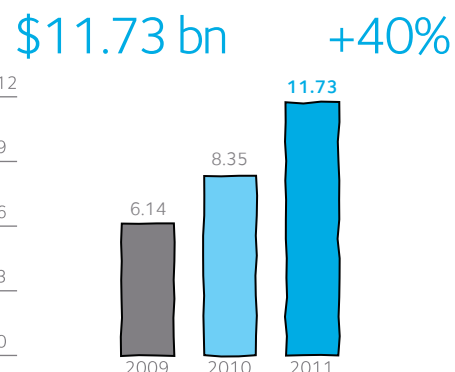
## KEY STRENGTHS

|   |    |
|---|----|
| Balanced portfolio of efficient assets  | 8  |
| Efficient vertical integration  | 6  |
| Well diversified sales and product mix  | 50 |
| Sustainable growth with a proven delivery record                                  | 38 |
| Solid financial standing and operational performance                              | 52 |
| Professional and experienced management team                                      | 82 |
| Sustainable development with strong commitment to corporate responsibility issues | 74 |



SALES REVENUE (US\$ bn)

KPI



## 2 UNDERSTANDING NLMK

- 2 Performance highlights
- 4 Key milestones
- 6 Our business model
- 8 Group structure
- 10 Where we operate
- 12 Products and uses

## 14 STRATEGIC REVIEW

- 16 Chairman's statement
- 18 President's review
- 22 Management Q&A
- 25 Market review
- 28 Our strategy
- 31 Strategy in action
- 40 Key performance indicators
- 44 Risk management

## 48 PERFORMANCE REVIEW

- 50 Group sales
- 52 Financial review
- 57 Operating review
  - 58 NLMK Russia
  - 64 NLMK Europe
  - 68 NLMK USA
- 72 Research & Development
- 74 Corporate responsibility

## 80 GOVERNANCE

- 82 Chairman's letter
- 82 Board of Directors
- 84 Management Board
- 85 Corporate governance
- 91 Information for shareholders

## 94 FINANCIAL STATEMENTS

- 96 Responsibility statement and Report of independent auditors
- 97 Consolidated balance sheets
- 98 Consolidated statements of income
- 99 Consolidated statements of cash flows
- 101 Consolidated statements of stockholders' equity and comprehensive income
- 102 Notes to the consolidated financial statements

## 124 APPENDICES

- 126 NLMK's subsidiaries and affiliates
- 128 NLMK's key products with descriptions
- 130 Glossary



## NLMK ONLINE

Our online report is available at [www.ara2011.nlmk.com](http://www.ara2011.nlmk.com)

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

# DELIVERING POSITIVE RESULTS

In a challenging year, NLMK delivered a robust operating and financial performance driven by increased sales and a better product mix. Our financial standing remains one of the most sustainable among steelmaking companies.

## STRONG FINANCIAL PERFORMANCE REINFORCES THE STRENGTH OF THE BALANCE SHEET

- Consolidated revenue up 40%
- Solid EBITDA of US\$2.3 billion, flat y-o-y
- Net income per share up 8%
- Cash flow from operations up 26%
- Net debt/EBITDA 1.47

## RESILIENT GROWTH PROMPTED BY SUSTAINABLE BUSINESS MODEL

- EBITDA margin of 19.5%
- High value added products sales ratio: 35%
- Low-cost steelmaking capacity up 36%\*
- Finished rolled products output up 24% after EU/US rolling business consolidation
- Iron ore capacity up 17%
- Captive energy generation capacity up by 150 MW

## SOLID COMMITMENT TO OPERATING RESPONSIBLY

- Air emissions per tonne of steel down 3%
- Labour efficiency up 7%\*
- Energy self-sufficiency ~50%\*
- US\$153 million in environmental investments

12.8 mt

Steel product sales

US\$2 bn

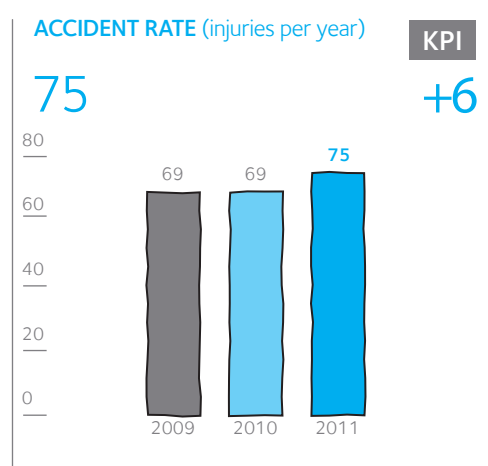
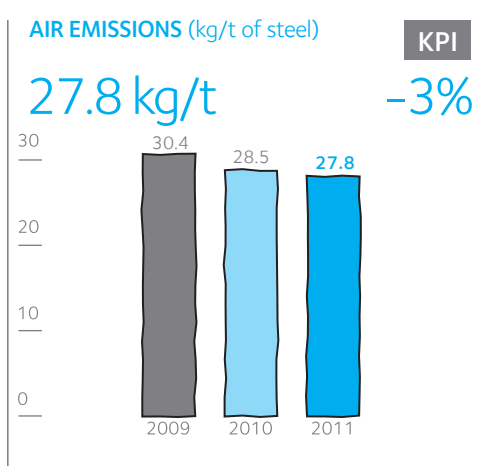
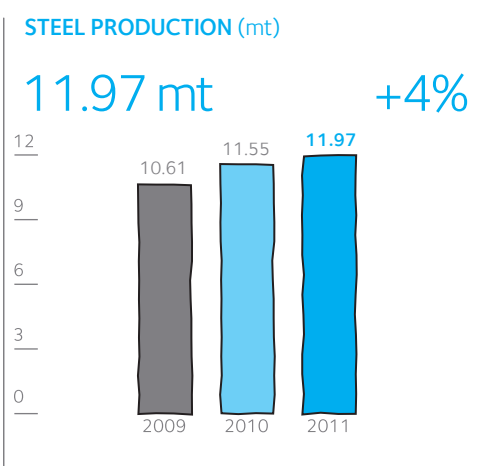
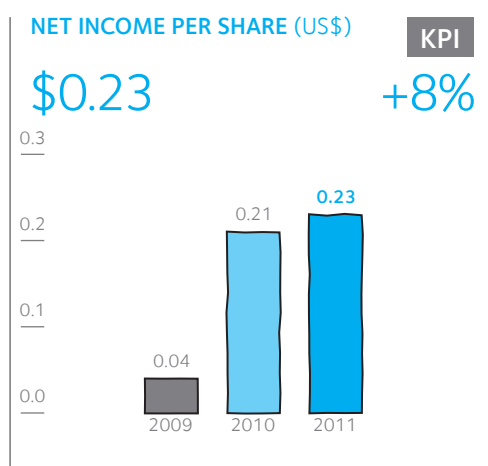
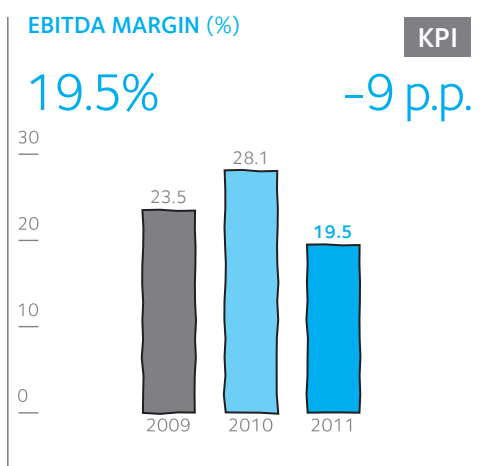
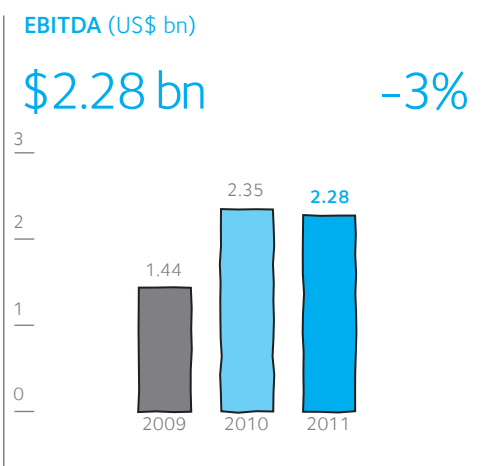
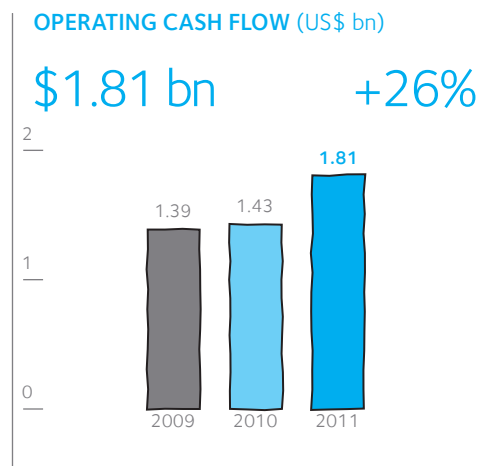
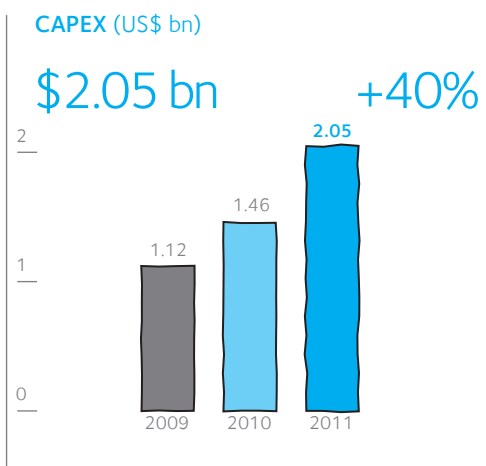
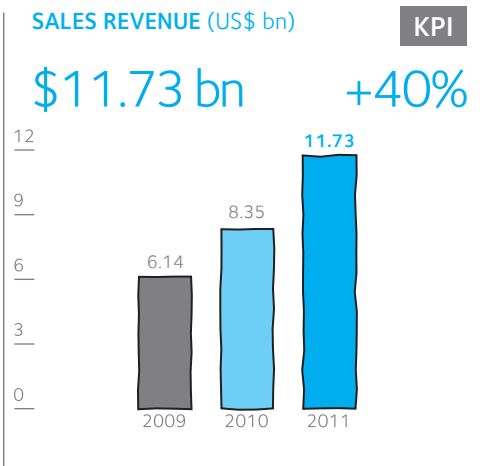
Capex

Over

US\$16 m

invested into OHS

\* Novolipetsk, NLMK's main production site (over 80% of total steelmaking capacity of the Group), as at the end of 2011



# ENSURING GROWTH THROUGH INTEGRATION

Since our beginnings in 1931, NLMK has been focused on innovation and development. We aim to control the resources that we need, using and re-using them efficiently, safely and responsibly to produce innovative, clean and durable steel products. This ensures our products meet the needs of our customers and can be used in thousands of applications around the world.

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

▲ The bulk of NLMK DanSteel slab needs are covered by NLMK's supplies.



## NLMK GROUP STEEL PRODUCTION (mt)

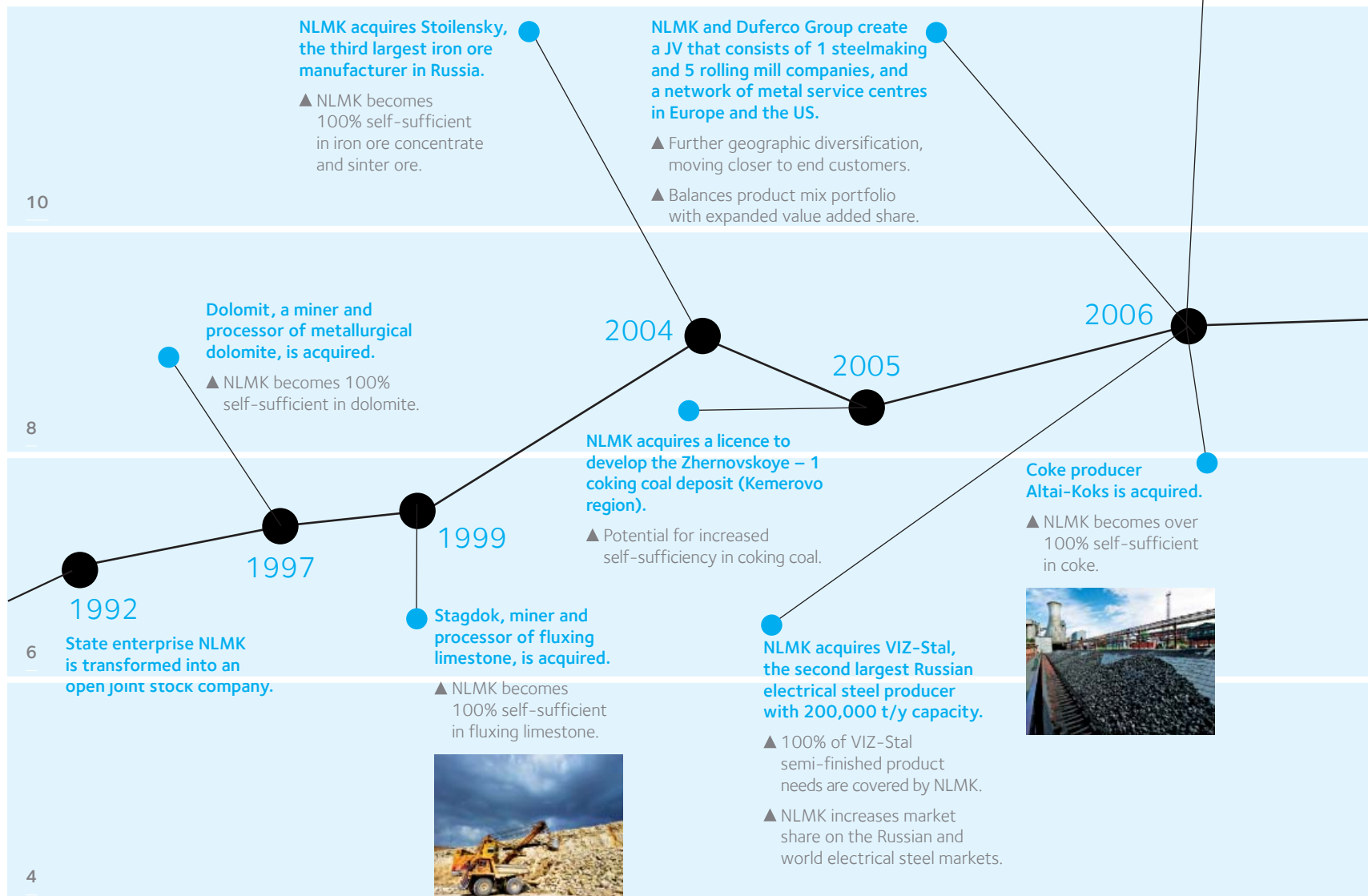
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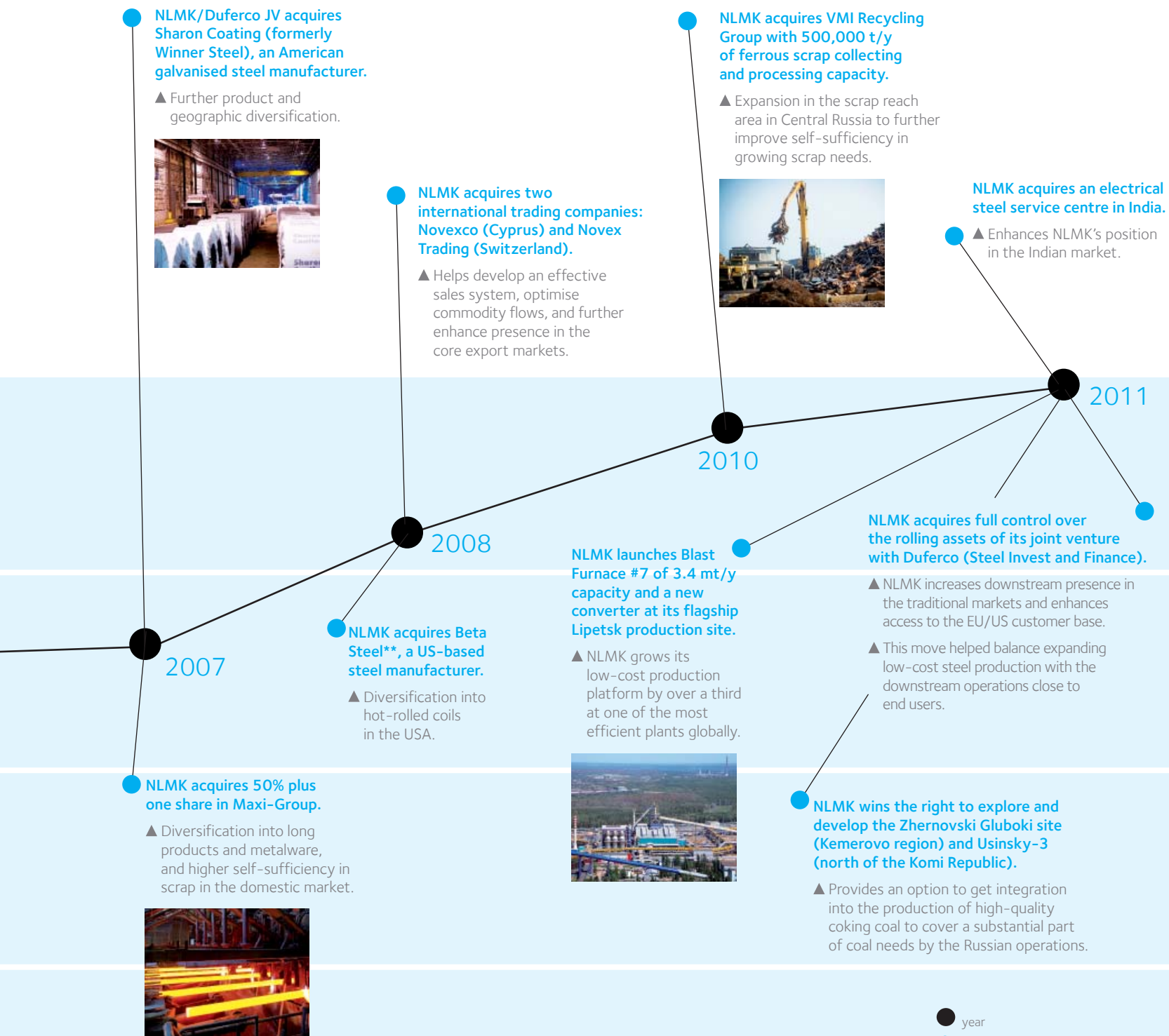
10

8

6

4





31 FOR MORE INFORMATION ON OUR FUTURE DEVELOPMENT PLANS AND KEY INVESTMENT PROJECTS

SEE AN INTERACTIVE VERSION OF OUR TIMELINE AT [WWW.ARA2011.NLMK.COM](http://WWW.ARA2011.NLMK.COM)

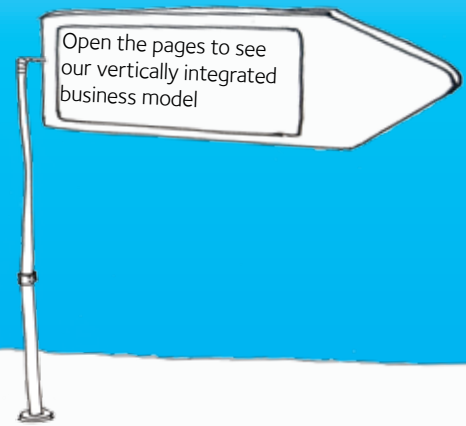
● year  
● event  
▲ integration benefit

\* On August 2, 2011, DanSteel changed its name to NLMK DanSteel

\*\* On July 27, 2010, Beta Steel changed its name to NLMK Indiana

# MAINTAINING COMPETITIVE ADVANTAGE THROUGH INTEGRATION

NLMK is a vertically integrated group with a well-balanced value chain controlling every stage of steel production, from the mining of raw materials through to finished high-tech product sales to end-users. During this process we operate with a leading commitment to corporate responsibility for all our people, our communities and our environment.



With limited resources and a heavy concentration upon the mining industry, the bulk of steelmaking profits come from upstream operations. A solid performance through even the toughest times for the sector stands as proof of the efficiency of the way in which we run our business.

Maintaining a high level of vertical integration provides us with the following competitive advantages:

## SUSTAINABLE GROWTH CAPABILITIES

### WE ARE A GROWTH COMPANY

- We grow our business by developing and acquiring upstream and midstream assets in cost-efficient locations and ensuring finishing facilities are close to our customers without creating imbalances along the production chain.
- We actively pursue self-sufficiency in key resources to secure supplies and to control costs of steel.
- Our Russian steelmaking platform remains our main growth engine. Many years of continuous investment in the primary steelmaking assets and processes ensure future organic growth and best-in-class operating performance.
- Downstream expansion both in domestic and international markets ensures we meet evolving customer requirements and improve profitability by offering higher value added products.

## SAFE AND EFFICIENT PROCESSES

### SAFETY AND EFFICIENCY ARE AT THE HEART OF WHAT WE DO

- We create safe working environments by improving processes, investing in employee education and enforcing health and safety discipline to mitigate operating risks and prevent accidents.
- We are committed to the communities and environments we operate in. By achieving zero water and minimal air emissions we comply with the most stringent international standards.
- We are an efficient operator, and we help our customers to be competitive by offering the lowest cost high-quality steel.
- We control our costs through having raw materials production in-house and through maintaining lower conversion costs across the entire production chain.
- We continuously run efficiency management initiatives, identifying cost reduction opportunities and converting them into cost savings.

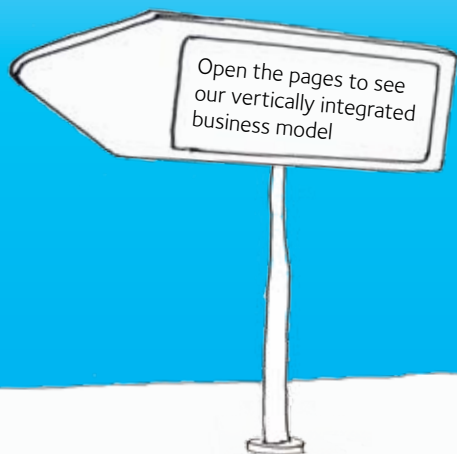
## FLEXIBILITY

### OUR BUSINESS STRATEGY RELIES ON FINANCIAL AND OPERATIONAL FLEXIBILITY

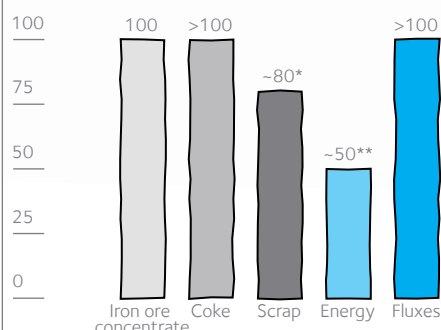
- We produce all raw materials and liquid steel in low-cost locations, combining integrated and scrap-based production routes.
- A significant share of our finished products is produced in developed markets in close proximity to a diverse and demanding customer base.
- In most product categories we seek to maintain a balance between exposure to emerging and mature markets, thereby balancing growth and stability.
- We have a diverse and balanced product mix encompassing standard and high-end products which helps us manage exposure to divergent industry cycles.
- We are focused on technological innovation and product development to meet the ever evolving needs of our clients.
- We maintain high through-cycle capital availability by adhering to rational financial metrics and by securing access to multiple financial sources and instruments.

 FOR MORE INFORMATION ON OUR PRODUCT PORTFOLIO

 FOR INFORMATION ON OUR STRATEGY

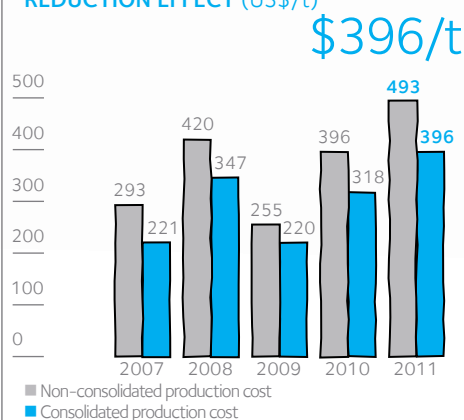


### RAW MATERIALS AND ENERGY SELF-SUFFICIENCY IN 2011 (%)

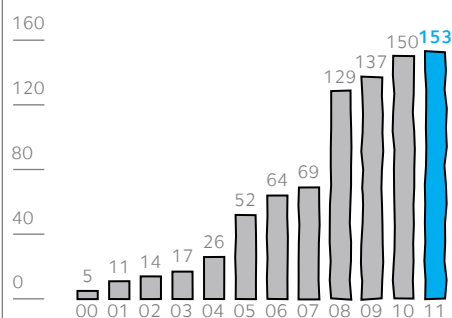


\* NLMK Group's Russian assets  
\*\* Novolipetsk as at the end of 2011

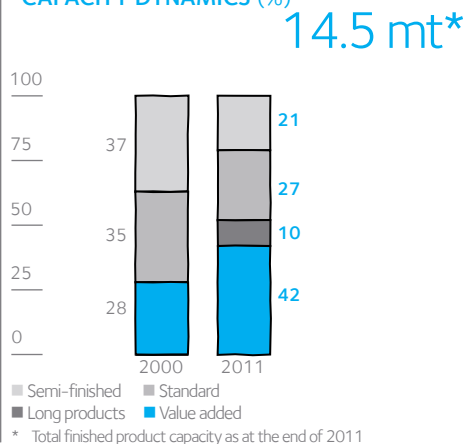
### VERTICAL INTEGRATION CASH COST REDUCTION EFFECT (US\$/t)



### ENVIRONMENTAL INVESTMENTS (US\$ m)



### FINISHED PRODUCT CAPACITY DYNAMICS (%)



\* Total finished product capacity as at the end of 2011

### POTENTIAL FOR GROWTH

Upstream development is one of the key areas for the next stage of our development. As part of this challenge, NLMK is expanding the production of iron ore at Stoilensky by 30% and pushing forward with the construction of the Pelletising Plant. In 2011, feasibility studies were actively under way for two coal deposit development projects (Zhernovskoye-1, Zhernovski-Gluboki in the Kemerovo region and Usinsky-3 in the Komi Republic). NLMK is also developing its scrap collection network to ensure adequate scrap supplies for the Kaluga Mini Mill that is to be launched in 2012.

These projects will provide NLMK with an in-house iron ore pellet supply, beginning in 2015, making it fully self-sufficient in pellets. We are also looking into the possibility of ensuring partial self-sufficiency in the main coking coal grades in the mid-term.

The Group sites are also implementing new technologies to reduce resource consumption. For example, the Lipetsk blast furnaces are being equipped with Pulverised Coal Injection (PCI) and tar pitch systems to significantly reduce coke and natural gas consumption.



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

80%  
self-sufficiency  
in scrap\*

Over  
100%  
self-sufficiency in coke

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

About  
50%  
self-sufficiency  
in energy\*\*

Over  
100%  
self-sufficiency  
in fluxes



“We have a wide raw materials base in a low-cost region (Russia)”

## UPSTREAM

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

### IRON ORE AND SINTER ORE

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

#### Advantages

Stoilensky fully meets the Group's needs for iron ore concentrate and sinter ore. It will start supplying iron ore pellets once the Pelletising Plant becomes operational.

### COKE AND COKING COAL

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

#### Advantages

Altai-Koks and the coke batteries at the Lipetsk site provide more than 100% of the Group's requirement in metallurgical coke used in the blast furnaces to produce pig iron. In the future, the implementation of new technologies and the option of developing coal deposits will minimise the necessity for imported coals.

### SCRAP

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

#### Advantages

Scrap processing businesses, which are part of our NLMK Russia Raw Materials division, provide about 80% of the ferrous scrap required by our Russian steelmaking plants, mitigating the risk of supply interruptions.

### FLUXES

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

#### Advantages

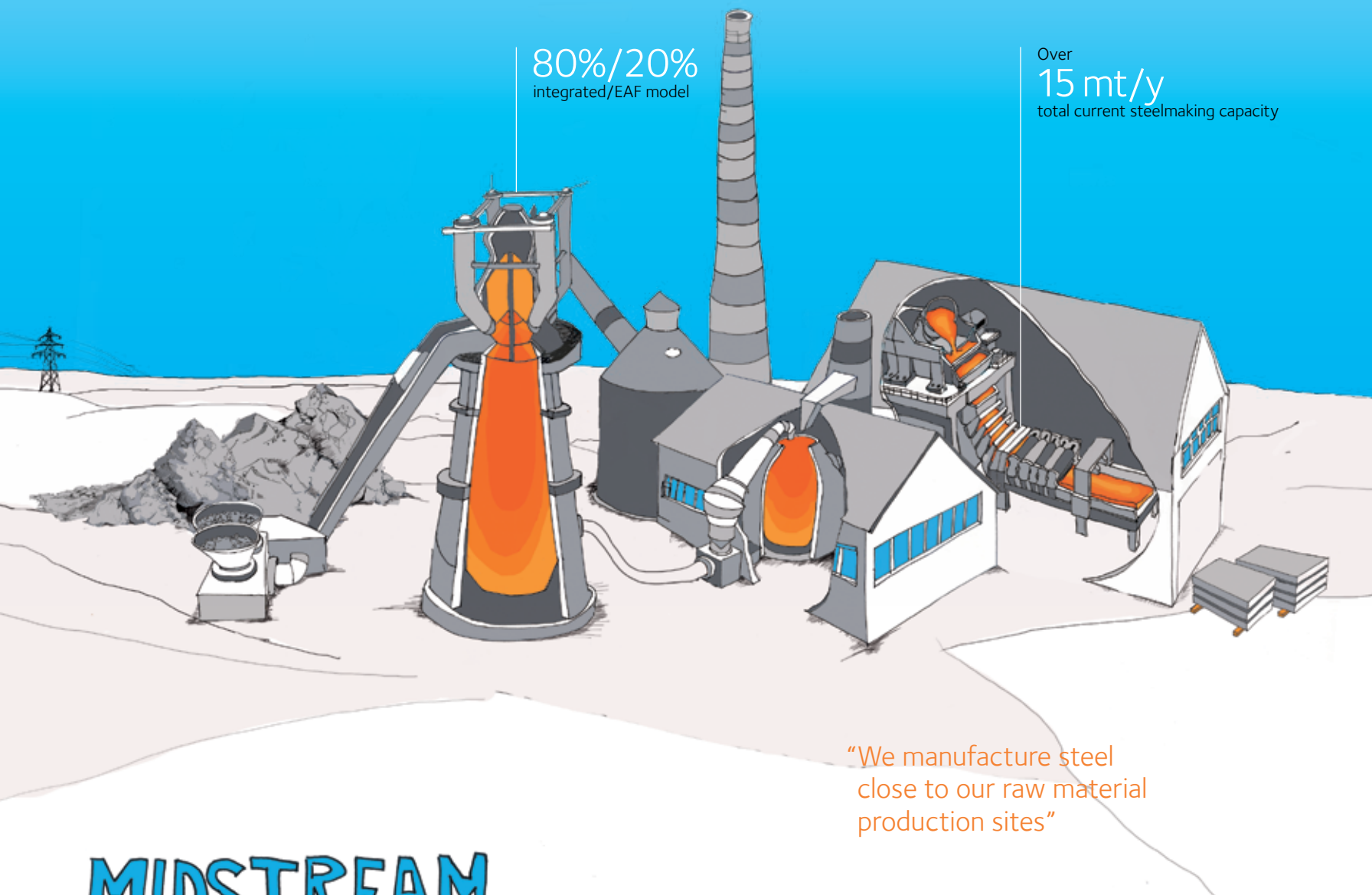
Stagdok (limestone) and Dolomit (dolomite) fully cover our flux requirements.

### ENERGY

NLMK Group installed generating plants run mainly on by-product gases from coke and blast furnace operations.

#### Advantages

Last year we launched a power generation facility at the Lipetsk site that allowed us to increase energy self-sufficiency at the site up to circa 50%.



80%/20%  
integrated/EAF model

Over  
15 mt/y  
total current steelmaking capacity

“We manufacture steel close to our raw material production sites”

# MIDSTREAM

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

## Process

The Group's steelmaking operations are well-balanced through various methods: the basic oxygen furnace (BOF) route, representing over 80% (at Novolipetsk), complemented by the electric arc furnace (EAF) based production, representing around 20% (at NLMK Russia Long, NLMK Europe Plate, NLMK USA).

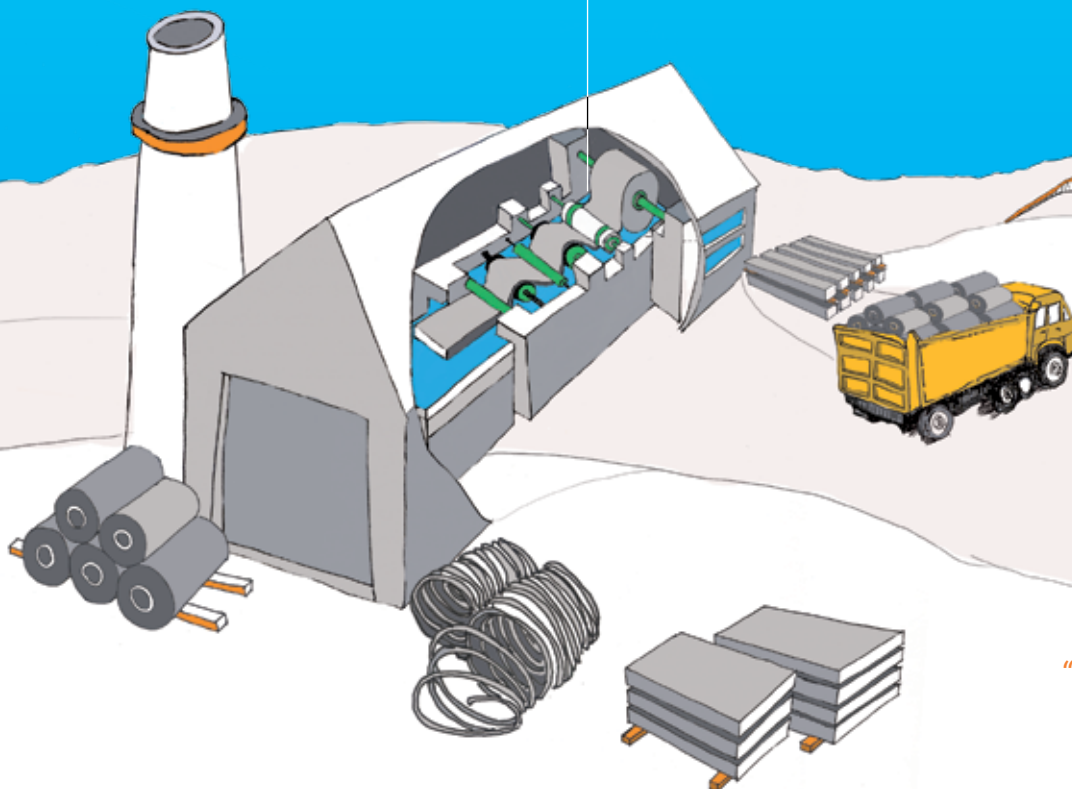
## Advantages

Balanced production allows us to flexibly adjust our production according to the market situation.

The bulk of steelmaking capacity is concentrated in Russia allowing us to maintain a low-cost position at the market.

This competitive advantage has allowed the Company to further expand its low-cost production base in Russia: in 2011, we commissioned a new blast furnace and a new basic oxygen furnace, increasing our steelmaking capacity by 36%. In late 2012, we are planning to complete the construction of our Kaluga Mini Mill. The site will have an EAF, and rolling capacities of 1.5 mt/y of long products.

About 90% of the liquid steel produced by the Group can be processed into finished products at our rolling assets both in Russia and overseas



“We roll steel in proximity to our main customers”

## DOWNSTREAM

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

### Process

NLMK’s steel processing plants are diversified in both products and in geography. Our rolling facilities are located in Russia, Europe, and the USA.

### Advantages

Following the acquisition of a number of foreign rolling assets, NLMK can process up to 90% of its steel into finished product even after the 36% growth in steelmaking capacity at the end of 2011 (70% prior to the acquisition).

NLMK’s forte is the proximity of its sites manufacturing finished products to its end-consumers. Russia, the EU and the USA have traditionally been NLMK’s key sales markets and that is where the Group’s rolling mills are placed.

Having set up an efficient production flow and flexible sales strategy, NLMK can adjust its production programme according to the demands of the market. When demand shrinks for High Value Added (HVA) products in the domestic market, as we saw in 2008–2009, NLMK can switch to standard steel production with practically no changes in utilisation rates at its core assets, and direct sales to external markets, including captive rolling assets. When demand recovers, the Company increases its HVA product output.

Around  
**70%**  
of all employees went through  
professional training

**+2%**  
growth in productivity  
per employee

**US\$153 m**  
allocated to environmental protection\*

**0%**  
water discharge\*\*

**-3%**  
reduction in  
specific air  
emissions\*

About  
**100%**  
of solid waste recycling\*\*



“We contribute to community welfare,  
help conserve the environment and  
prevent violation of human rights”

# CORPORATE RESPONSIBILITY

We strive to operate with leading levels of corporate responsibility throughout the value chain.

## Process

NLMK's corporate responsibility policy is geared towards achieving sustainable development objectives, which are aligned with the long-term economic interests of the business, encouraging high standards of public welfare and promoting conservation of the environment.

## Advantages

One of the many examples is using by-product gases while producing energy. This helps the Company reduce its environmental footprint, sustainably using available resources, and cutting production costs, as in-house energy generated at Novolipetsk is 40% cheaper than energy bought from the market.

\* For NLMK Group's Russian assets

\*\* Novolipetsk as at the end of 2011

# OUR VERTICALLY INTEGRATED OPERATIONS

Our vertically integrated operations are organised into three clear geographical operating divisions and span virtually all of the steelmaking value chain. Services support each of the regional divisions.



## OUR SUPPORTING SERVICES

Alongside production, NLMK performs a variety of operations through its own assets. Our trading companies of Novexco Limited (Cyprus) and Novex Trading (Switzerland) allow us to enhance our access to core export markets and establish better control over export operations.

NLMK Trading House is a business unit responsible for consolidated purchases of raw materials and inputs, as well as the sales of some NLMK Group products.

## NEW REPORTING STRUCTURE

NLMK created new business divisions: NLMK Europe and NLMK USA, uniting all of the Group's international assets, including the Steel Invest and Finance rolling facilities. NLMK's international businesses currently have a rolling capacity in excess of 7 million tonnes, or circa 50% of the Group's total finished steel capacity. This move reinforces NLMK's positions as a finished product supplier to its core markets in Western Europe and the USA and substantially improves the Company's downstream product offering.

## NLMK RUSSIA

The Group's key business segment comprising mining, coke chemical, steel producing and rolling assets. Russian assets produce over 90% of crude steel, about 70% of flat steel products and 100% of longs. NLMK Russia comprises three business units – Flats, Longs and Raw materials.

### CORE BUSINESSES

|  |                       |
|--|-----------------------|
| <b>FLAT STEEL:</b>                         | <b>RAW MATERIALS:</b> |
| • Novolipetsk                              | • Stoilensky          |
| • VIZ-Stal                                 | • Altai-Koks          |
| <b>LONG STEEL:</b>                         | • Stagdok             |
| • NSMMZ                                    | • Dolomit             |
| • UZPS                                     | • Vtorchermet NLMK    |
| • Kaluga Mini Mill<br>(under construction) |                       |

### PRODUCTS

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

### MARKET SHARE

|                                     |   |
|-------------------------------------|---|
| <b>7%</b> of the global slab market | • Galvanised steel: <b>19%</b>                        |
| Share of the Russian market:        | • Long steel: <b>17%</b>                              |
| • Cold-rolled steel: <b>21%</b>     | • Coke: <b>13%</b>                                    |
| • Pre-painted steel: <b>26%</b>     | <b>23%</b> of Russian iron ore concentrate production |

### PRODUCTION HIGHLIGHTS

|  |   |
|--|---|
| <b>11.2 mt</b> of crude steel (+2% y-o-y)              | <b>15.1 mt</b> of iron ore (+9% y-o-y)        |
| <b>4.8 mt</b> of flats (+1% y-o-y)                     | <b>2.1 mt</b> of dolomite (+39% y-o-y)        |
| <b>1.5 mt</b> of long steel and metalware (+10% y-o-y) | <b>3.3 mt</b> of limestone (-1% y-o-y)        |
| <b>6.6 mt</b> of coke, 6% moisture (+9% y-o-y)         | <b>2.2 mt</b> of scrap processed (+12% y-o-y) |

### EMPLOYEES

~53,700

## NLMK EUROPE

NLMK Europe is a manufacturer of innovative flat products comprising all of NLMK Group's European production and distribution facilities. NLMK's industrial model is unique for Europe and is based on the efficient supply of semi-finished products from Russia to flexible high-quality European processing facilities, close to key customers. NLMK Europe includes two business units, Strip Products and Plate Products.

|   |  |
|---|--|
| <p><b>STRIP PRODUCTS:</b></p> <ul style="list-style-type: none"> <li>NLMK La Louvière (Belgium)</li> <li>NLMK Coating (France)</li> <li>NLMK Strasbourg (France)</li> </ul> | <p><b>PLATE PRODUCTS:</b></p> <ul style="list-style-type: none"> <li>NLMK DanSteel (Denmark)</li> <li>NLMK Clabecq (Belgium)</li> <li>NLMK Verona (Italy)</li> </ul> |
| <p>Hot-rolled steel<br/>Cold-rolled steel<br/>Galvanised steel<br/>Pre-painted steel</p>  | <p>Thick plates including quenched and tempered</p>  |
| <p><b>7%</b> of the EU plate market</p>   |  |
| <p><b>0.3 mt</b> of steel (0.1 mt from consolidation)</p>   | <p><b>2.4 mt</b> of flats (1.3 mt from consolidation), incl. <b>1 mt</b> of thick plates</p>   |
| <p>~2,900*</p>  |  |

64 FOR INFORMATION ON NLMK EUROPE OPERATING RESULTS

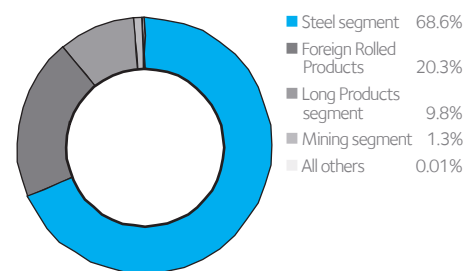
## NLMK USA

NLMK USA has a diversified base of flat steel producing assets comprising three production sites. It has an electric arc furnace (EAF) steelmaking capacity of 0.7 mt/y and a hot-rolling capacity of 2.7 mt/y with a common distribution structure.

|  |   |
|--|---|
| <ul style="list-style-type: none"> <li>NLMK Indiana (Portage, IN)</li> <li>Sharon Coating (Sharon, PA)</li> <li>NLMK Pennsylvania (Farrell, PA)</li> </ul> |   |
| <p>Slabs<br/>Hot-rolled steel<br/>Cold-rolled steel<br/>Galvanised steel</p>   |   |
| <p><b>6%</b> of the US hot-rolled steel market</p>   |   |
| <p><b>0.6 mt</b> of steel (0.6 mt from consolidation)</p>  | <p><b>1.7 mt</b> of flats (1.1 mt from consolidation)</p> |
| <p>~1,100*</p>   |   |

68 FOR INFORMATION ON NLMK USA OPERATING RESULTS

### NLMK GROUP REVENUE STRUCTURE BY SEGMENT IN 2011 (%)



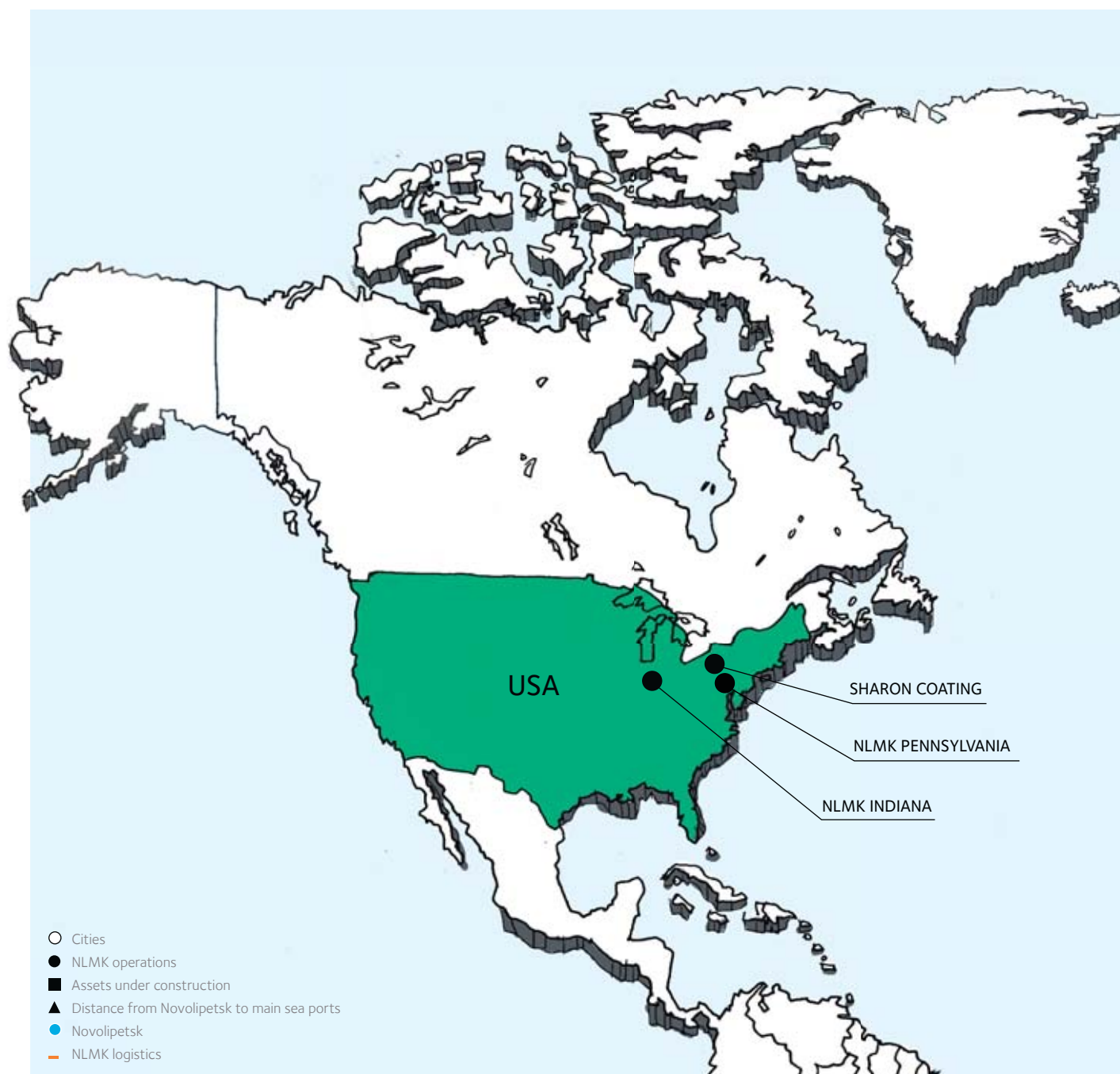
We report our financial performance by 5 business segments – Steel, Long Products, Mining, Foreign Rolled Products, and All others.

- The Group's financial performance is defined largely by the performance of the Steel segment, which comprises Novolipetsk, VIZ-Stal, trading companies Novexco Limited and Novex Trading, Altai-Koks, as well as a number of service companies.
- The Long Products segment includes NSMMZ, UZPS, scrap collecting and processing facilities, and others. The core activities of the segment span from scrap collection and processing to long products and metalware manufacturing.
- NLMK's Mining segment comprises Stoilensky, Dolomit and Stagdok, supplying the main raw materials to NLMK's production facilities in Lipetsk.
- The Foreign Rolled Products segment comprises steelmaking companies located outside Russia, including the rolling mills in Europe and the USA that became part of the Group commencing July 2011. These assets include NLMK Clabecq, NLMK Verona, NLMK La Louvière, NLMK Coating, NLMK Strasbourg, NLMK Pennsylvania, Sharon Coating, as well as NLMK Indiana and NLMK DanSteel.

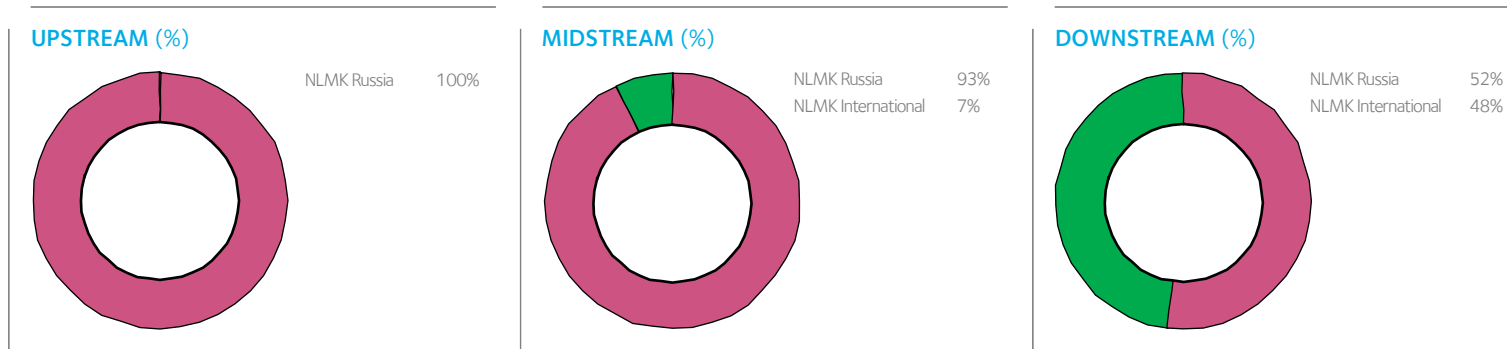
\* Average headcount for 2011 (w/o the consolidated period)

# INTEGRATED OPERATIONS ACROSS GEOGRAPHIES

NLMK's integrated operations are on a global scale, spanning eleven countries across three continents. Each stage of our model is streamlined ensuring minimised transportation costs and access to our end-customer.



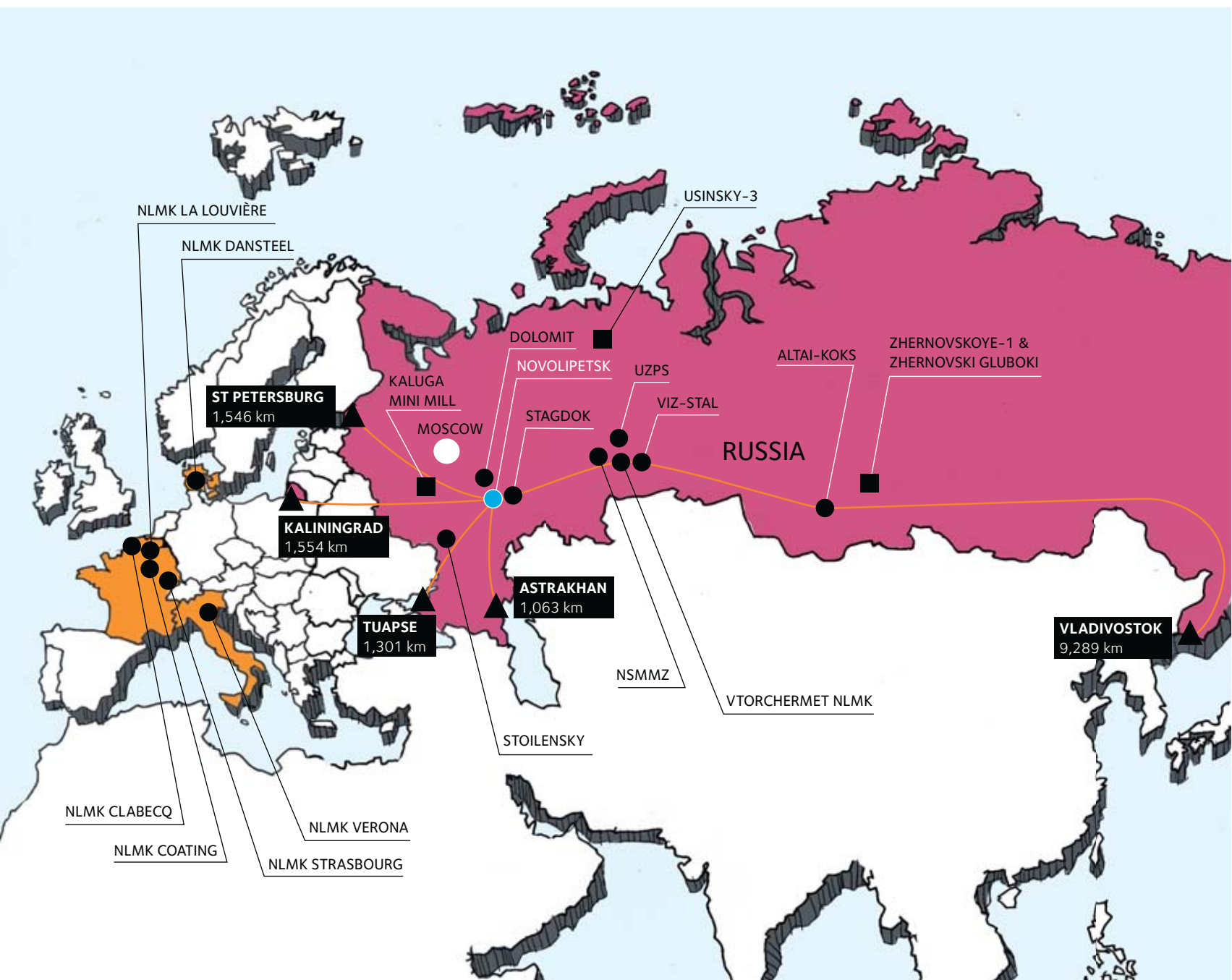
THE LOCALITY OF OUR BUSINESS MODEL – BREAKDOWN BY CAPACITY



NLMK SERVICES

NLMK Services have purchasing and distribution assets located in Russia, Europe and Asia. These facilitate sales in key markets and provide better access to the end customer base.

57 FOR INFORMATION ON OUR CONSOLIDATED OPERATING RESULTS

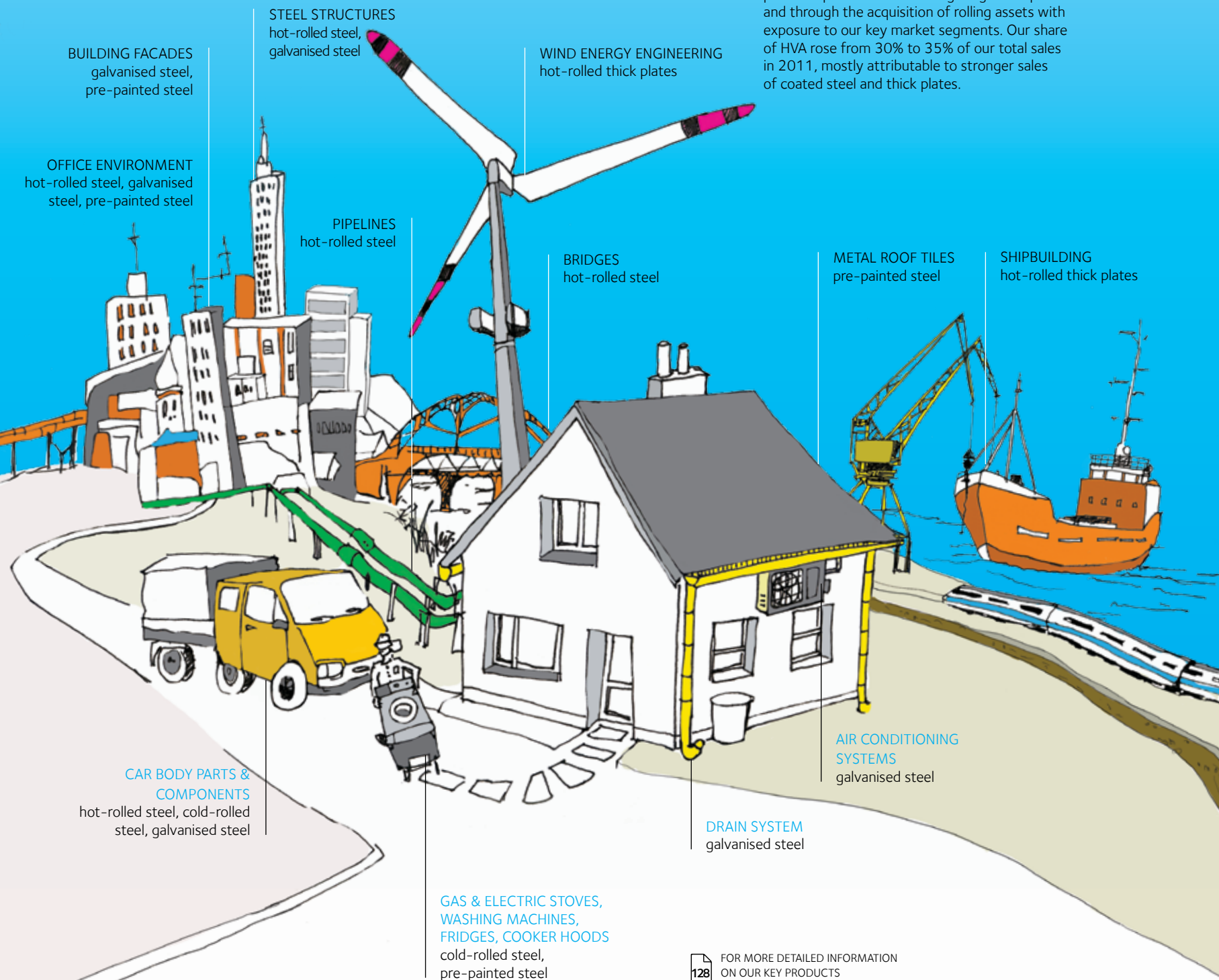


# OUR PRODUCTS IN SOCIETY

The NLMK range of products, which derives from the integrated nature of the Group's production facilities, enables it to react to rapid changes in demand from its worldwide markets.

## HIGH VALUE ADDED PRODUCTS

NLMK is a leading supplier of High Value Added (HVA) products, which include cold-rolled, galvanised, pre-painted and electrical steel, a wide range of plates as well as metalware. We are consistently growing our value added products portfolio both through organic expansion and through the acquisition of rolling assets with exposure to our key market segments. Our share of HVA rose from 30% to 35% of our total sales in 2011, mostly attributable to stronger sales of coated steel and thick plates.



**BUILDING FACADES**  
galvanised steel,  
pre-painted steel

**STEEL STRUCTURES**  
hot-rolled steel,  
galvanised steel

**WIND ENERGY ENGINEERING**  
hot-rolled thick plates

**OFFICE ENVIRONMENT**  
hot-rolled steel, galvanised  
steel, pre-painted steel

**PIPELINES**  
hot-rolled steel

**BRIDGES**  
hot-rolled steel

**METAL ROOF TILES**  
pre-painted steel

**SHIPBUILDING**  
hot-rolled thick plates

**CAR BODY PARTS &  
COMPONENTS**  
hot-rolled steel, cold-rolled  
steel, galvanised steel

**GAS & ELECTRIC STOVES,  
WASHING MACHINES,  
FRIDGES, COOKER HOODS**  
cold-rolled steel,  
pre-painted steel

**AIR CONDITIONING  
SYSTEMS**  
galvanised steel

**DRAIN SYSTEM**  
galvanised steel

FOR MORE DETAILED INFORMATION  
ON OUR KEY PRODUCTS

## FLAT STEEL

Flat steel is a steel product that is used in various applications in such sectors like construction, electrical engineering, machine building, including automotive, energy, shipbuilding, and tube and pipe production. Due to such diversity of uses this product can be further processed into hot-rolled plates, cold-rolled, galvanised steel, etc.

### PRODUCTS

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

▲ **Hot-rolled thick plates** are used in pipes and tubes, pressurised vessels, ship hulls, bedplates for wind power generation installations, building of bridges, pumps.

▲ **Cold-rolled steel** is used in casing components for machinery and installations, frame elements, pipes and tubes, floodlight towers, agricultural machinery.

▲ **Galvanised steel** is used in the manufacture of casing components for machinery, roofing, frame elements for use in corrosive environments.

▲ **Pre-painted steel** is used in construction to manufacture roofing and finishing materials, casings for household and commercial goods ("white goods").

▲ **Transformer (grain oriented, anisotropic) steel** is used in the electrotechnical industry for the manufacture of transformer cores and stationary components of electric machines.

▲ **Dynamo (non grain oriented, isotropic) steel** is used in electrical equipment such as electric motor components and generators.

## LONG STEEL

Long steel is largely used in the construction and infrastructure projects that account for over 2/3 of total consumption of this type of product. It is also used in the machine building sector.

### PRODUCTS

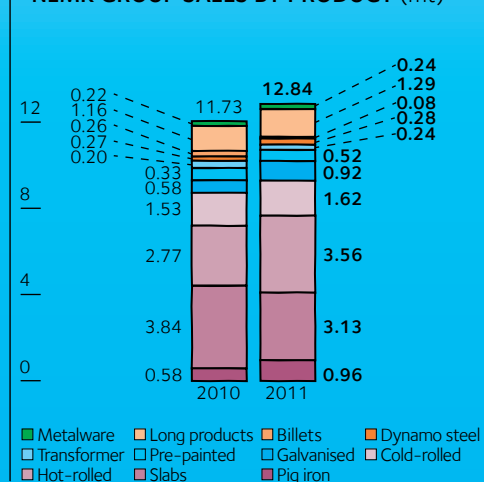
**Rebar** is used to strengthen concrete in highway and building construction and as a component in machinery.

**Wire rod** is drawn into wire products that are applied mainly in the construction industry as well as in transport machinery (metal cords).

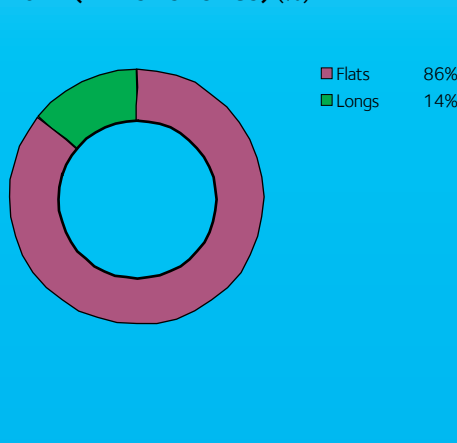
▲ **Metalware** is mainly used in the construction industry (fixing hardware, nails, mesh) and as a component in transport machinery.

▲ High value added products

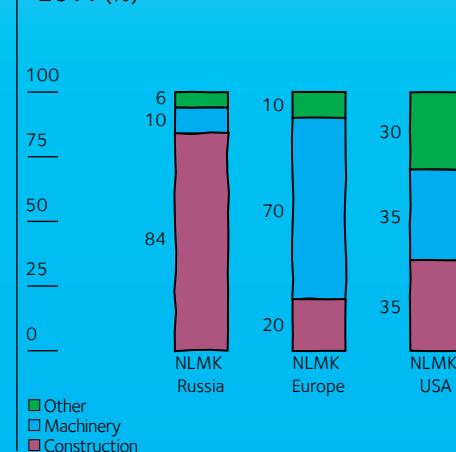
NLMK GROUP SALES BY PRODUCT (mt)



NLMK GROUP BREAKDOWN BY CAPACITY, 2011 (FLATS VS LONGS) (%)



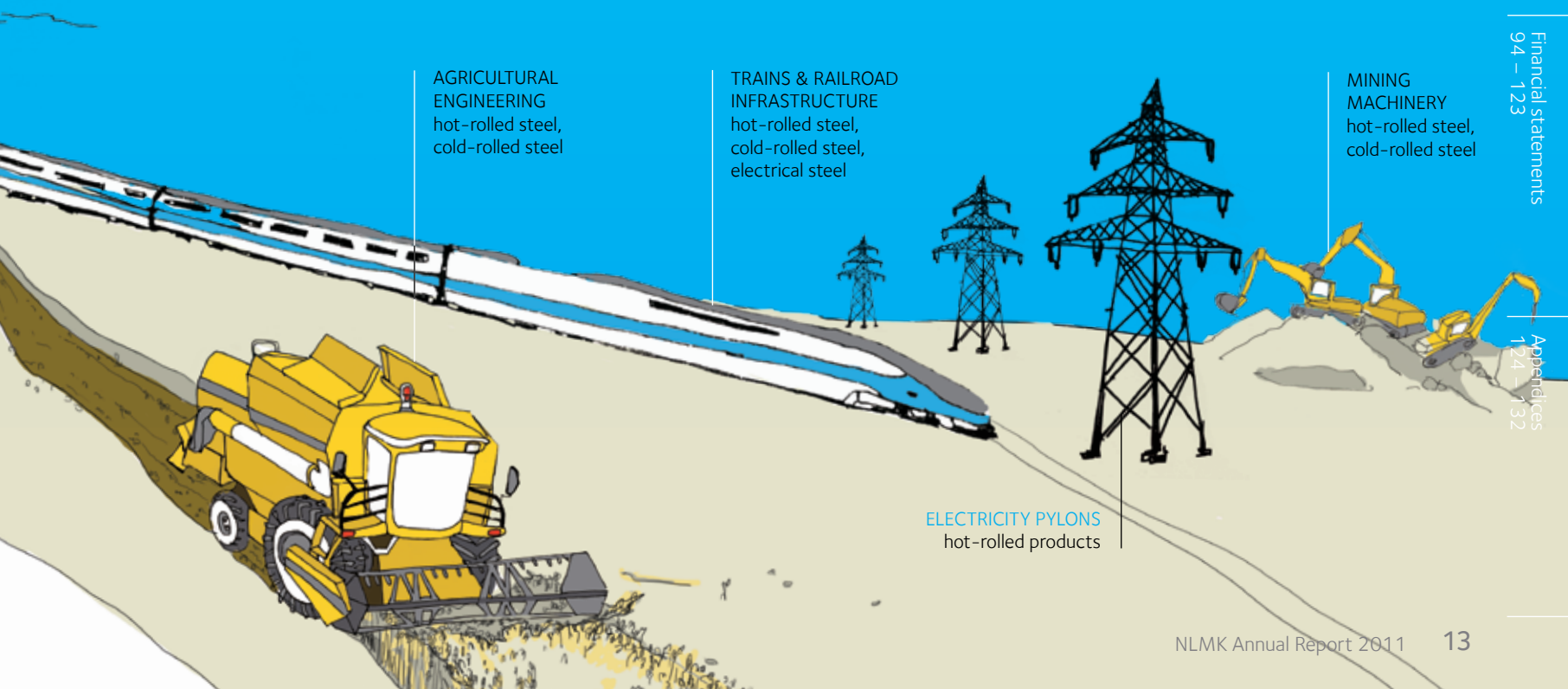
DIVERSIFIED SALES BY INDUSTRIES, 2011 (%)



50 FOR INFORMATION ON OUR SALES

57 FOR INFORMATION ON OUR CONSOLIDATED OPERATING RESULTS

72 FOR INFORMATION ON OUR R&D PROCESS



AGRICULTURAL ENGINEERING  
hot-rolled steel,  
cold-rolled steel

TRAINS & RAILROAD INFRASTRUCTURE  
hot-rolled steel,  
cold-rolled steel,  
electrical steel

MINING MACHINERY  
hot-rolled steel,  
cold-rolled steel

ELECTRICITY PYLONS  
hot-rolled products

# STRATEGIC REVIEW

## IN THIS SECTION



### 16 CHAIRMAN'S STATEMENT

An executive summary of the market conditions, performance and outlook with a focus on our commitment to good governance.



### 18 PRESIDENT'S REVIEW

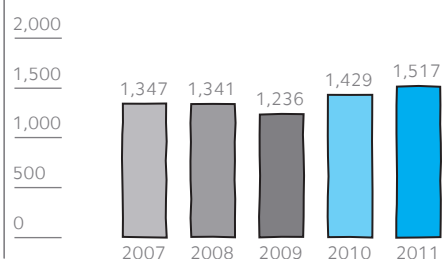
An overview of our financial and operational performance for the year.

### Q & A

### 22 MANAGEMENT Q&A

Our management team answers the tough questions raised through investor meetings and our research during the year.

#### WORLD STEEL PRODUCTION (mt)



### 25 MARKET REVIEW

An overview of the markets in which we operate and the outlook for the future.

### 28 OUR STRATEGY

Our core strategy, our progress against objectives and our priorities moving forward.

### 31 STRATEGY IN ACTION

Case studies bringing our progress on our strategy to life.

### 40 KEY PERFORMANCE INDICATORS

The performance indicators which measure the success of our strategy.

### 44 RISK MANAGEMENT

The principal risks and uncertainties which may affect our ability to deliver our strategy effectively.



## CREATING VALUE THROUGH INTEGRATION

“This year we completed the upgrade of our Continuous Casting Machine #8, doubling its efficiency. As a result, for the first time in Russia we were able to start producing slabs to be processed into thick plates at our European subsidiaries, NLMK DanSteel and NLMK Clabecq. These plates are in high demand from machine builders and utilities. For us it’s an opportunity to master innovative technologies and new grades of steel, as well as to improve product quality and labour efficiency.”

Andrey Zavaliuyev  
Head Foreman, BOF-2 Casting Operations

# LONG-TERM SUSTAINABILITY THROUGH THE VALUE CHAIN

We continue to believe that having an efficient value chain – from low-cost raw materials to finished products – is the only way of guaranteeing long-term sustainability for the steel business in the future.



This past year proved once again that all forecasts made for the steel sector are relative. The beginning of the year was marked by optimism, while the second half ended in a market collapse and a slump in margins for all steelmakers.

This year brought little relief: the structural issues corroding the economy have been piling up for a long while and have no immediate solutions. In this context, we were able to capitalise on our ability to adapt to external conditions, one of our competitive advantages. Flexibility, coupled with consistent efforts to improve business efficiency, helped us achieve high performance despite the market turbulence.

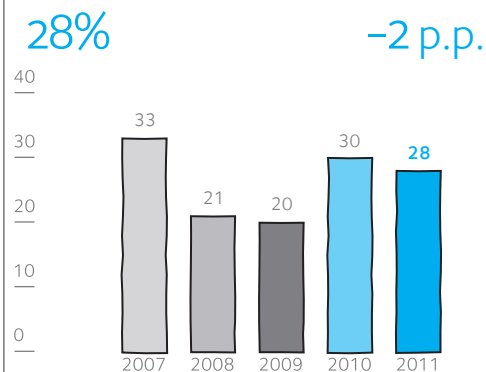
 FOR MORE INFORMATION ON OUR MARKET VISION

We continue to believe that having an efficient value chain – from low-cost raw materials to finished products – is the only way of guaranteeing long-term sustainability for the steel business in the future. Over a decade of investments into this model support our stability in any market, vividly illustrated by our 2011 results: significant revenue growth, 19.5% EBITDA margin and +8% in net profit.

“The Company’s people are the key component of its success, and in turn, the Company’s success has a direct impact on its employees, through professional training and career development, wage raises based on improved efficiency, and better working conditions.”

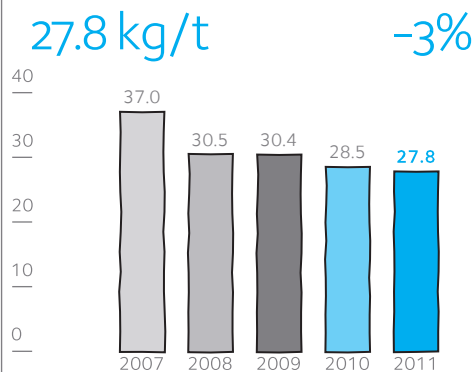
Vladimir Lisin  
Chairman of the Board of Directors

### DIVIDEND PAYOUT RATIO\* (%)



\* 2011 (projected) – the amount of interim dividends is based on the RUB/US\$ exchange rate as at the date of their approval at the Annual Shareholders' Meeting (September 29, 2011), additional dividends are based on the RUB/US\$ exchange rate as at the date of the Board of Directors' recommendations on the amount of dividends (April 10, 2012)

### SPECIFIC AIR EMISSIONS\*\* (kg/t of steel)



\*\* NLMK Group's Russian assets

## STRATEGIC PROGRESS

2011 marked an important milestone in the history of the Company: we successfully launched, for the first time in the last 25 years, what is one of the most advanced blast furnaces in the world. Furthermore, our steelmaking capacity, 93% of which is located in Russia, grew by over a third, to over 15 mt.

The Company's development also supported a 40% revenue boost, alongside the growth in production, mostly associated with the consolidation of our European and American assets that produce finished products in the Group's largest sales markets. This step allowed matching the increase in production output and end-user demand rather than relying on the volatile semi-finished product market. Having in-house rolling mills will ensure increased sales of premium finished goods and stable level of utilisation of the Group's steelmaking and mining capacities.

Our investment focus is now shifting upstream. Last year we implemented the first stage of our iron ore production expansion project and have passed to the next stage. As a result, by 2015, production output will increase by another 30%. Furthermore, we will start producing pellets. The project will make us fully self-sufficient in iron ore and significantly reduce our production costs.

NLMK has licences to develop two coal deposits that could fully cover the Group's needs in deficit coal grades. Both projects are currently undergoing feasibility studies but we fully expect a self-sufficiency in coal supplies to have an important and positive effect on our production costs.

Making the Group less dependent on the overall increase in energy costs has always been among our priorities. We have consistently been reducing our specific energy and natural gas consumption by implementing innovative technologies and fully utilising all types of energy. Over the last decade, NLMK has brought the energy intensity of its steelmaking operations down by 15%. In 2012, we are aiming for a further 3% decrease and this will put us in line with the best global steel standards. We have increased in-house energy generation from production by-product gases by over 1.5 times.

We are also working on mastering the pulverised coal injection technology: as it is replaced with cheap coal, natural gas consumption will significantly reduce.

**28** FOR MORE INFORMATION ON OUR STRATEGY

## DIVIDEND PAYMENTS

First half of 2011 results allowed us to pay high interim dividends to the amount of RUB1.4 per share. Therefore total dividends amounted to US\$264 million, or around 30% of 6M 2011 net profit.

Based on FY2011 results, the Board of Directors recommended the shareholders to approve dividends in the amount of RUB2 per share, or 28% of net profit.

**91** FOR MORE INFORMATION FOR OUR SHAREHOLDERS

## CORPORATE GOVERNANCE

In 2011 we continued to work on improving our system of governance. We are convinced that with our two new independent directors, Franz Struzl and Helmut Wieser, who bring their vast experience in global steelmaking to the table, the Board of Directors will become ever more efficient.

**85** FOR MORE INFORMATION ON OUR CORPORATE GOVERNANCE

## EMPLOYEES

As head of the HR Committee of our Board of Directors, I personally attend to our personnel strategy. The Company's people are the key component of its success, and in turn, the Company's success has a direct impact on its employees, through professional training and career development, wage raises based on improved efficiency, and better working conditions. We have created a stimulating environment for career development, promoting the best employees. For the last few years we've been implementing a programme to grow our young leaders into highly skilled professionals.

**76** FOR MORE INFORMATION ON NLMK'S PERSONNEL STRATEGY

## CORPORATE RESPONSIBILITY

Our key principle – growth and leadership in business efficiency – would not be attainable without OHS and environmental improvements, and without a constant dialogue with the Group's key stakeholders. The environment is among the most sensitive CR issues. For over a decade, we've been investing in environmental projects in all regions where NLMK operates. We became the first steelmaking company to achieve zero wastewater discharge at our main production site; air emissions were reduced significantly despite the growth in production output. In future, we plan to recycle all the previously accumulated waste. As a result, by 2020 we will reach the level of the most stringent international environmental standards in all areas.

**74** FOR MORE INFORMATION ON OUR CORPORATE RESPONSIBILITY ACTIVITIES

## OUTLOOK

This year we hope to unlock the full potential of our new production assets and increase the Group's steel output to 15 mt. Production will receive a further boost in 2013 following the launch of our EAF Kaluga Mini Mill, making NLMK a leader in the Russian construction steel market.

We see tough times ahead for the global steel segment. I am sure we will be seeing some serious changes to the habitual landscape. At the same time, I am convinced that the efforts we've put in place will keep the Company solidly afloat and growing in the face of any challenge.

Summing up, I would like to once again thank all our employees for their contribution to the success of our Company.

**VLADIMIR LISIN**  
Chairman of the Board of Directors

# POSITIONED WELL FOR GROWTH

In presenting the results for 2011, I am delighted to report that the NLMK Group became a truly global company. However, we intend to stay true to our strategy of sustainable growth and of continuing to invest strongly in strengthening the vertical integration of the business.



## PERFORMANCE OVERVIEW

Last year, we built new equipment that enabled us to increase our annual steelmaking capacity by 36% to 15.6 mt and acquired new rolling mills to transform the additional steel into finished products.

We expanded our global presence and grew overall sales to 12.8 mt, thereby increasing our revenue by 40% to US\$11.7 billion. We have succeeded in consolidating our position as one of the world's most cost-efficient steelmakers and, as a result, our EBITDA margin was 19.5%, even with continuously rising prices for raw materials and with ongoing fluctuations in demand.

 FOR MORE INFORMATION ON OUR STRONG FINANCIAL AND OPERATING PERFORMANCE SEE OUR KPIS

## OUR KEY ASSET

We currently employ over 60,000 people in 11 countries around the world. These top-class professionals have kept us among the leading steelmaking companies over recent years. Labour efficiency for the Group increased as a result of our programme of efficiency enhancement and our continuing investment in professional development for our employees. We are also actively training and employing young specialists, motivating them to grow with us. Occupational safety is at the forefront of our decisions and we are fully committed to reducing injuries.

I am truly grateful to our outstanding team for their hard work, they are the driving force of our success.

 FOR MORE INFORMATION ON OUR EMPLOYEES

**“We currently employ over 60,000 people in 11 countries over the world. These top-class professionals have kept us among the leading steelmaking companies over recent years.”**

Alexey Lapshin  
President (Chairman of the Management Board)

**+40%**  
increase in revenue

**+36%**  
growth in steelmaking capacity

#### ACQUISITION OF FOREIGN ROLLING ASSETS

Last year, we completed the deal to acquire the Steel Invest and Finance rolling mills. Under this transaction, seven production sites joined the Group, together with a number of service and distribution centres located in Europe and the USA with a total annual capacity of over 5.5 mt of strip and plate products. As a result, NLMK has almost doubled its rolling capacity and has thereby ensured that it is able to process the slabs manufactured at its cost-efficient production base in Russia into finished products. The acquisition not only significantly expanded NLMK's product offering but it also increased the share of high value added (HVA) products in our sales portfolio.

**12** FOR AN EXPLANATION ON OUR VALUE ADDED PRODUCTS

Proximity to end-consumers is another advantage that comes with this processing chain. Acquiring these ongoing businesses has made a significant improvement to NLMK's client base: the acquired mills supply their products to car manufacturing and machine building companies, white goods producers and construction businesses throughout the EU and the USA.

Once the transaction had been completed, we renamed and rebranded them as part of an overall reorganisation of our foreign division, forming three key geographic and product units – NLMK USA, NLMK Europe Strip and NLMK Europe Plate – in order to improve management efficiency. This timely acquisition of rolling mills in developed markets has enabled NLMK to balance out the incremental growth in its steelmaking capacity in Russia and thereby consolidate our business profile.

**31** FOR MORE INFORMATION ON OUR STRATEGY IN ACTION

#### INVESTMENTS

In 2011, we allocated US\$2 billion to our capex programme, 40% up year-on-year, enabling us to complete a whole series of large-scale projects.

In Lipetsk, we completed the construction of one of the most advanced blast furnaces in the world, Blast Furnace #7, with a capacity of 3.4 mt/y. We started a Recovery Cogeneration Plant, running on by-product blast furnace gases, in order to reduce our environmental footprint and to optimise the use of resources. As a result, energy self-sufficiency at Novolipetsk will increase to circa 50%, ensuring energy savings in the midterm.

In addition to the blast furnace, we launched a new basic oxygen furnace, increasing Novolipetsk steelmaking capacity to 12.4 mt/y. Furthermore, our new Continuous Casting Machine has expanded the range of geometry of slabs produced, to the great benefit of our European rolling mills.

As well as expanding our overall production capacity, we have been improving product quality and expanding our product offering. Over the last few years, we've launched pig iron desulphurisation units and ladle furnaces that allow more flexibility in the ultimate chemical content of steel, directly translating into an improved quality and the opportunity for an increased product mix.

With expanded steelmaking capacities came the need for more raw materials. Increased supplies from Altai-Koks cover our additional coke requirements, while Stoilensky launched a new beneficiation section last year, growing iron ore concentrate production by 1.3 mt to minimise the deficit in iron ore supplies. Additional iron ore concentrate production facilities are currently under construction and, following their launch in 2014, Stoilensky will be able to produce 18 mt/y. As

part of this programme, a 6 mt/y pelletising plant is being built and once this is operational in 2015, it will provide 100% of our pellet requirements.

We continued to invest heavily in our rolling and finishing activities. Last year, Novolipetsk launched a 200,000 t/y pre-painting line to meet the high demand for pre-painted steels in Russia. With regard to hot-rolling operations, we've upgraded our reheating furnace, boosting its productivity by more than 20% and reducing specific fuel consumption by 45%.

#### NEXT GENERATION BLAST FURNACE #7

In 2011, NLMK launched the new 3.4 mt/y Blast Furnace at its Lipetsk site. This is the most ambitious project to be implemented in Russia over the last 25 years. Investment totalled US\$1.2 billion and construction took more than three years. BF-7 is currently one of the most advanced blast furnaces in the world, in many ways surpassing some of its most efficient global counterparts. As a result, the plant's production capacity will increase by over a third.



**VIDEO** TO VIEW A VIDEO OF THE BLAST FURNACE IN ACTION SEE [WWW.ARA2011.NLMK.COM](http://WWW.ARA2011.NLMK.COM)

Last year, the NLMK Group was mastering the production of a new product – high-permeability transformer steel. There is a growing demand for this type of steel in both emerging and developed markets. NLMK Group experts have developed a unique process technology that is now being implemented at both production sites, Novolipetsk and VIZ-Stal.

In 2011, NLMK Clabecq (Belgium) launched a new 250,000 t/y Quenching and Tempering Line, expanding the HVA product offering with abrasion-resistant high-strength steels used, for instance, in machine building.

All of these major projects strengthened our key competitive advantages and positions in the sales markets, improved the quality and expanded our product offering.

**72** FOR MORE INFORMATION ON OUR R&D PROGRAMME

**PRODUCTION HIGHLIGHTS**

In 2011, notwithstanding the ongoing complications in the market, NLMK kept its utilisation rates high. Steelmaking capacities were running at 93%, producing a record 12.0 mt, up 4% y-o-y. This was largely attributable to the launch of new equipment at Novolipetsk and increased output at NLMK Indiana.

In July 2011, one of the Electric Arc Furnaces (EAFs) at NSMMZ had to be taken out of production as a result of a transformer failure, reducing NLMK Long Products' steel output. Despite this, by processing billets purchased from third parties,

we were able to increase finished product output by almost 10%. The failed transformer was repaired in the shortest possible time, and the EAF was recommissioned in January 2012.

Rolled product output increased by 24% to 8.8 mt with the acquisition of the foreign mills, including 4.6 mt of HVA steel, up 30% y-o-y.

This impressive performance was supported by an uninterrupted supply of raw material. Stoilensky covered 100% of our sinter ore and iron ore concentrate requirements, Stagdok and Dolomit supplied the fluxes, and Altai-Koks covered the Company's additional requirements in coke. In addition, 80% of all scrap consumed by our Russian assets was supplied by NLMK's captive scrap processing network.

**57** FOR MORE INFORMATION ON OUR OPERATING RESULTS

**MARKET AND SALES**

In 2011, the global steel market was very volatile. In H1 2011, NLMK maintained high levels of production efficiency; prices for finished products were at their peak, driven by a revival in demand in our key sales markets. However, the EU debt crisis and the slowdown that followed, put pressure on steel demand. As a result, H2 was not as favourable and, by the end of the year, our European sites had difficulties in fully utilising their production capacities.

A wider sales geography and higher production volumes in 2011 resulted in 12.8 mt of steel products being sold by the NLMK Group, 9%

more than in 2010. This was particularly true for HVA products, including plates, cold-rolled, pre-painted and electrical steel, up 30% to 4.5 mt. At the same time, slab sales weakened to 3.1 mt (-18%), due to their processing at our own rolling mills. Because there was more stability in the Russian markets, we were able to increase our domestic sales by 15% y-o-y.

All in all, we have significantly expanded our operations, as well as having made a quality shift to a more HVA product offering.

**50** FOR MORE INFORMATION ON OUR SALES

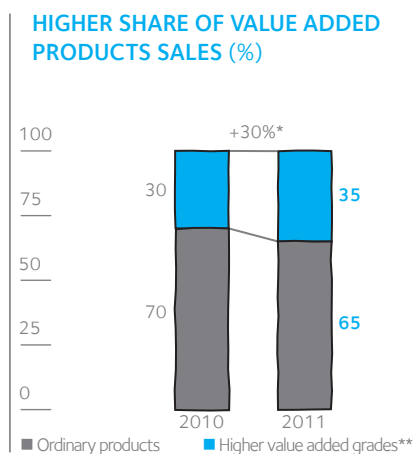
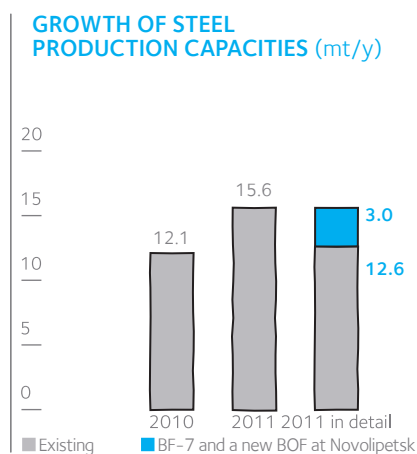
**FINANCIAL HIGHLIGHTS**

As sales grew, our sales network improved and average prices for our products increased, our revenue grew 40% to US\$11.7 billion. With the newly acquired mills and the commissioning of new equipment at Novolipetsk, revenues from HVA sales increased by 51%, and totalled 40% of revenue.

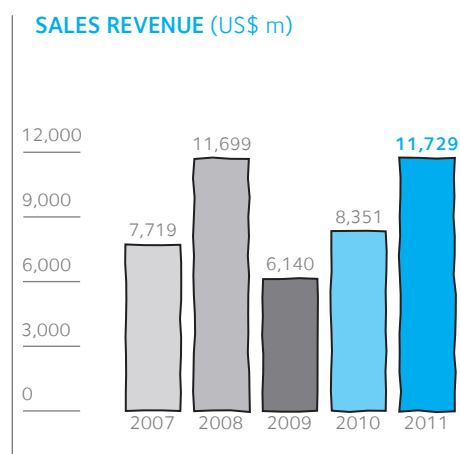
In 2011, Russia, the EU and the USA were our priority sales markets where the Group managed to strengthen its positions. These accounted for 38%, 24%, and 10% of our revenue, respectively.

Vertical integration played a key role in supporting our status as one of the most efficient steelmakers. Cash cost of slabs produced at Novolipetsk in 2011 totalled US\$396, which is below the global average.

An efficient distribution network and cost-efficient production support our consistently high profitability.



\* Growth in volume  
 \*\* HVA products include thick plates, cold-rolled, galvanised, pre-painted, electrical steel and metalware



“NLMK is counting on improving its operating results and maintaining its high financial performance. We will continue to invest in the development of vertical integration and production efficiency.”

Alexey Lapshin  
President (Chairman of the Management Board)

In 2011, our EBITDA was US\$2.3 billion and the EBITDA margin 19.5%. Significant cash flow levels from our operations allow us to continue to pursue our large-scale capex programme, primarily using our own funds.

52 FOR MORE INFORMATION  
ON OUR FINANCIAL PERFORMANCE

#### DEBT PROFILE AND FINANCIAL STABILITY

NLMK maintains a relatively low level of debt. The Group's total debt grew to US\$4.4 billion as of the 2011 year end (+67% with respect to the beginning of the year), whereas the Net Debt/EBITDA was 1.47. Debt levels increased due to the consolidation of the debt of the newly acquired foreign assets.

NLMK's level of financial stability and flexibility is highly acclaimed by independent international rating agencies; NLMK currently has investment ratings from three leading agencies.

53 FOR MORE INFORMATION  
ON OUR CREDIT RATINGS

#### OUTLOOK

In 2012, we expect that global steel consumption rates could decline as compared to the previous year. Demand for steel products is expected to be especially unstable in some markets, primarily the EU. Resource base limitations and the dense clustering in the global mining industry are adding to the challenge, giving vertically integrated companies with a flexible sales policy another competitive edge.

Given the context, NLMK is counting on improving its operating results and maintaining its high financial performance. We will continue to invest in the development of vertical integration and

production efficiency. We believe NLMK has all necessary capabilities and resources to demonstrate sustainable performance even in the case of a negative scenario.

In summary, our high level of performance has proven the efficiency of our sustainable growth strategy and the advantages of our vertically integrated business model. Qualified personnel, advanced equipment, continuous innovation and a balanced financial policy all support our global leadership.



ALEXEY LAPSHIN  
President  
(Chairman of the Management Board)

# RESPONDING TO OUR INVESTORS

Following discussions with investors and our own research, our management team answers the key concerns that have been raised through investors' meetings throughout the year.

Alexey Lapshin, President  
(Chairman of the  
Management Board):



**Q** What is the current state of the global steel sector?

**A** The global steel industry is currently experiencing a structural change as steel production and consumption is increasing dramatically in the developing markets. This is especially true in China where its share of global steel consumption has risen from around 10% to over 40% in the last 10-15 years.

This means that access to raw materials is now going to be the driving factor for both the sector as a whole and for individual companies.

As a result, the ability to control the ongoing cost inflation has become a major factor in the success of every company. At the end of the day, this is all about management, i.e. how successful the management is in improving the overall efficiency of all of the business process at a time of limited access to the capital markets and the persistent steel market volatility.

**Q** How did you organise the integration of SIF assets into the NLMK Group?

**A** Over the past few years, we have been working together as part of a joint venture and this has ensured that the consolidation went smoothly. As a result, the acquired production assets have formed a core part of our International Division and this now has a rolling capacity that exceeds that of our Russian operations.



“The global steel industry is currently experiencing a structural change as steel production and consumption is increasing dramatically in the developing markets.”

Alexey Lapshin  
President (Chairman of the Management Board)

**Q** Why has NLMK made the decision to expand global operations and production?

**A** Our key competitive advantage is our ability to produce steel at a cost that is 30-40% lower than the global steel industry average. We see the expansion of our international operations as an extension of our Russian business growth strategy. These additional rolling operations ensure synergies with the existing business in Russia and thereby guarantee the sales of our expanding production.

Galina Aglyamova,  
Vice-President, CFO:



**Q** What is the Company's debt management strategy for the coming year? Do you plan to maintain current levels of debt?

**A** Decisions to refinance short-term obligations of NLMK are made on the basis of the liquidity of the Company at that moment in time as well as the needs to finance our capex plans.

Today the Company has two RUB bond programmes: three-year RUB bonds (we still can raise RUB5 billion) and RUB50 billion of ten-year bonds – this programme has not been executed so far.

In the mid-term, our Company has the capability to gradually decrease its debt load to a targeted net debt-to-EBITDA ratio of 1.0.

**Q** The profitability of steel companies is decreasing and NLMK is no exception to this. What levels of profitability should we expect from NLMK following the consolidation?

**A** Profitability in the steel sector is becoming structurally lower, which is inevitable in a cyclical industry. NLMK is no exception but, in our case, profitability decreased as we expanded the scale of the business through enhanced vertical integration, including downstream rolling businesses, which have a lower level of profitability than our core mining and steelmaking assets.

This result had been anticipated: we made this decision to improve sustainability of the cash flow of the Company and to manage risks of overexposure on any one single product.

“We recognise that there is considerable opportunity to reduce our production costs by further enhancing our vertical integration and by improving the efficiency of our production.”

Galina Aglyamova  
Vice-President, CFO

We believe that, in this environment, the acceptable level of profitability for the Company is around 20% but, as we develop the projects that will further reduce our cost of production, then we believe that our profitability will come back to the 30% level.

**Q How will NLMK continue to retain its competitive cost position with the increase in the cash cost of slabs?**

**A** We recognise that there is considerable opportunity to reduce our production costs by further enhancing our vertical integration and by improving the efficiency of our production.

We are currently expanding our iron ore production capacity by 30% while, at the same time, constructing a 6 mt/y Pelletising Plant, which should be fully operational in 2015.

An additional contribution to cost saving will come from the implementation of new technology that will replace traditional sources of energy and fuel in blast furnace operations. The key projects include the use of tar pitch and pulverised coal injection (PCI) systems.

Alexander Saprykin,  
Vice-President, Head  
of Coal Division:



**Q How does NLMK plan to manage risks associated with the increase in raw material prices, including coking coal?**

**A** NLMK purchases coking coal at market prices that largely correlate with the steel market dynamics.

We also have two greenfield projects, including the development of the Zhernovskoye-1 coalfield that is currently receiving approval from the regulatory bodies. Concurrently with this, we have initiated preparatory works for the development of the mine infrastructure.

At the second deposit, Usinsky-3, we are making a geological study of the deposit and an appraisal of the reserves. Once this has been completed, we will start the development plan for the deposit.

We are also implementing a number of energy saving initiatives that will lead to a lower cost of production of coke and hence pig iron. For instance, we are working on design solutions on revamping several operating coke batteries (with no downtime). As part of this initiative, we are testing a “coal stamping” technology to improve coke quality without change of the input coal mix or enable the use of less expensive coal grades without quality deterioration of coke.



“In 2012-13, over 90% of our blast furnace operations are expected to be equipped with PCI technology which may reduce consumption of coke by 25% and of natural gas by over 60%.”

Alexander Saprykin  
Vice-President, Head of Coal Division

We are also testing other solutions to improve coke quality and/or reduce its production cost, such as the use of additives in coal blends, changes to the quenching methods, etc.

In 2012-13, over 90% of our blast furnace operations are expected to be equipped with PCI technology which may reduce consumption of coke by 25% and of natural gas by over 60%.



Dmitry Baranov,  
Vice-President, Sales:

**Q Which consumer sectors will be of most interest for NLMK in Russia in 2012?**

**A** In 2012, the construction sector, which represents almost 60% of total steel consumption, will remain the key market (in terms of absolute market capacity) for the Company’s domestic sales. We expect steel demand in this sector to grow by 8-10% y-o-y.

The machine building sector is the next most important market, accounting for ~15% of our domestic sales. The automotive segment is the most interesting one, in our view. Here we anticipate ~10% y-o-y growth in flat steel consumption.

We are planning to capture these growth opportunities by increasing our hot-rolled coil sales by 9% y-o-y, cold-rolled by 32% and pre-painted steel by 11%.

“The key strategic and investment goals of the international business are to improve the efficiency of rolling operations, decrease our inventory and optimise logistics.”

Grigory Fedorishin  
Director of Strategy and Business Development

“The international operations of NLMK are demonstrating a significant rate of production growth.”

Horacio Malfatto, CEO of NLMK Europe,  
and Robert Miller, President of NLMK USA

**Q** For which customers does NLMK envisage producing the slabs from the new continuous casting machine #8 (CCM-8)? What is the order book for this product looking like?

**A** This type of slab is consumed largely by the rolling mills of NLMK Europe Plate and enables us to enter new niche markets, such as the production of thick plates for the manufacture of offshore drilling platforms.

The demand for such grades is stable and we see good prospects for further improvements in the demand by the key customers of these plate grades.

Horacio Malfatto, CEO of NLMK Europe (right), and Robert Miller, President of NLMK USA (left):



**Q** What were the asset utilisation rates for NLMK Europe and NLMK USA in 2011? What results is NLMK expecting for these divisions in 2012?

**A** NLMK USA’s rolling operations were running at around 65% utilisation rate while EAF steelmaking production was operating at around 85% run rate.

Thick plate production at our European mills grew by 4% y-o-y with an average run rate in excess of 60%.

NLMK Europe Strip’s capacity load decreased from 65% in the first half of 2011 to slightly over 50% in the second half. In early 2012, the international operations of NLMK are demonstrating a significant rate of production growth.

Grigory Fedorishin,  
Director of Strategy  
and Business Development:



**Q** How is NLMK planning to improve the competitiveness of its foreign businesses?

**A** The key strategic and investment goals of the international business are to improve the efficiency of rolling operations, decrease our inventory and optimise logistics between our Russian steel plant and our foreign rolling facilities.

We are also planning to change the sales strategy for our European division by increasing the share of long contracts (for Strip Products) and the amount of HVA products, including niche steels, based on the results of an intensive upgrade programme that has been underway for the last few years (for Plate Products).

**Q** What benefits and synergies will the acquisition of the remaining stake in SIF bring to the Group?

**A** Integration with the downstream assets located in the mature and stable markets ensured high run rates for the highly efficient steelmaking facilities recently launched in Russia, as well as decreases in the share of highly volatile slabs in our sales portfolio and direct access to the final consumers of our products.

Alexander Burayev,  
Director of Long Products  
and Metalware:



**Q** What is the economic rationale for the Kaluga Mini Mill project? How will it contribute to NLMK Russia Long’s financial performance and fit into the overall business model?



“This plant is among the most advanced in the world. The latest technical developments will enable us to improve the energy efficiency of the steel production process and boost labour productivity.”

Alexander Burayev  
Director of Long Products and Metalware

**A** This plant is among the most advanced in the world. The latest technical developments will enable us to improve the energy efficiency of the steel production process and boost labour productivity, ceteris paribus, cost production at this plant will be 10 to 15% lower when compared to its peers.

On top of that, the plant is located very close to its customer base and that offers lower lead times and minimum level of transportation costs. Currently the deficit in long product availability in the region is about 2–2.5 mt/y and supplies from other regions, including CIS countries, satisfy that need. This combination of factors ensures that we can find a stable market close to the production plant. The scrap needs of the plant will be covered by the local scrap yards owned by Vtorchermet NLMK.

# CHALLENGING WORLDWIDE MARKET CONDITIONS

The global economy in 2011 was highly unstable. A slowdown in the USA and China, and the surging recession in the EU added to the negative trend, slowing down global economic growth from 5.2% in 2010 to 3.8% in 2011.

## GLOBAL STEEL MARKET

Global industrial production growth decelerated from 9.6% in 2010 to 5.3% in 2011, resulting in a more than two-fold slowdown in the growth of ferrous metal consumption rates. Global apparent steel consumption increased by about 6% y-o-y in 2011. World Steel Association forecasts that in 2012 the growth of global steel demand could decelerate to 4% compared to 2011.

Positive trends recorded in H1 2011 allowed steelmakers to grow output: in 2011 global steel output increased by 6.1%. Production growth coupled with fading demand in the global steel market in H2 triggered a surge in inventory levels.

China continued to strengthen its position in the global steel market: its share in steel production reached 45%, and 64% in finished product output. Overall, Asian countries accounted for 64% of global coil production in 2011.

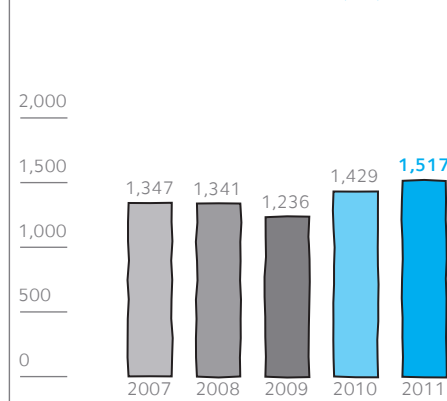
Towards the end of Q1 2011, prices for steel products spiked, up to 18-20% in some markets, driven by higher demand in the global market due mostly to restocking, coupled with growing raw material prices. By Q2, however, prices were beginning to ease. Deteriorating conditions in the global steel market caused by the threat of escalating recession in the EU, and dampened economic growth rates in China and the USA, were additionally pressured by excess steelmaking capacities. Nonetheless, global prices in 2011 were higher than the 2010 level: global hot-rolled coil prices grew by an average 13.5%.

Negative outlooks for the global economy, steel production growth outpacing demand, high steel production costs in the world on the back of high raw material prices – these are the factors that are going to be responsible for the high volatility of steel product prices at a time of relatively high levels of excessive capacity.

## DEVELOPED MARKETS

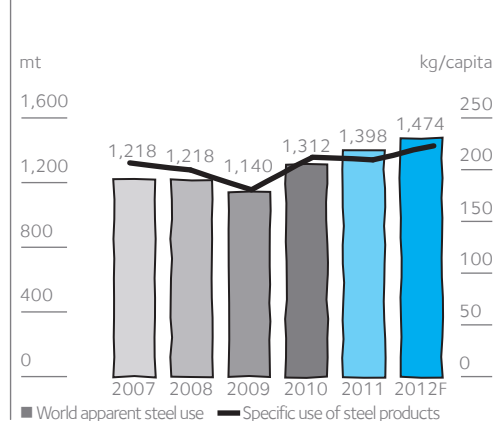
Steel use in the developed world remains sustainably high in terms of per capita steel consumption after a long period of steel consumption growth as these countries developed their infrastructure and increased steel intensity of the respective economies. After such a dynamic growth beginning in the early 20<sup>th</sup> century, demand and hence steel use per capita stabilised and remains relatively stable through the cycle. Given the high cost of production in these markets due to lack of available raw materials, the high cost of labour and energy and other factors, liquid steel production in these regions is to a great extent non-competitive and could ease as the hot end facilities may be phased out mainly due to the weak economics of their operations. Meanwhile, the demand for value added flat steel products, particularly in niche divisions, remains sustainable as the demand comes from a diversified client base for instance in machine building sectors that remain competitive in global markets.

WORLD STEEL PRODUCTION (mt)



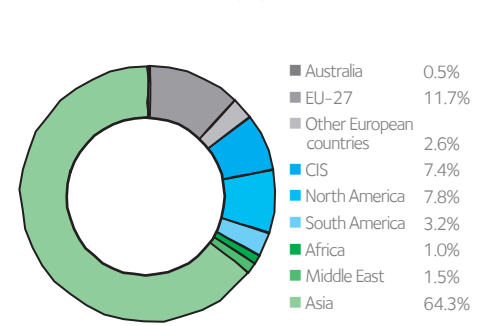
Source: World Steel Association

WORLD APPARENT STEEL USE



Source: World Steel Association

WORLD STEEL PRODUCTION BY REGION IN 2011 (%)



Source: World Steel Association

In 2011, developed countries took the biggest hit from the ongoing economic instability. GDP growth in these economies contracted almost two-fold, from 3.2% in 2010 to 1.6% in 2011. The World Bank expects economic growth in high-income countries in 2012 to be slightly above 1%. The Eurozone economy could contract 0.5%, while the GDP growth in other countries could be circa 2%.

Following a short-lived upturn at the beginning of the year, H2 prices in developed markets began to slump under pressure from the negative market sentiment and fading demand. Moreover, the peak of the EU debt crisis overlapped with the vacation season. As a result, Q4 2011 saw an average 19% plunge in prices for rolled steel in the EU and the USA compared to the peak values in the beginning of the year. The USA, nonetheless, turned out to be the leader in terms of y-o-y price growth (17%), with the EU delivering circa 5%.

Price trends in Q1 and Q2 2012 could be supported by end-2011 production cuts introduced by the European steelmakers, recovering consumer activity related to restocking, and growing raw material costs. At the same time, actual demand will remain weak, and production growth will continue outpacing demand. This could lead to a decrease in 12M 2012 prices in the EU and the USA.

### EUROPEAN MARKET

Industrial production in the European market increased 3.3% against 6.5% in 2010. This slowdown had a serious impact on the steel markets in high-income economies.

After the significant recovery growth in demand for steel in 2010 (+21% against the crisis 2009), steel consumption in 2011 grew a mere 6%.

### US MARKET

The slow economic recovery brought down inventory levels. As prices were falling in H2 2011, consumers postponed their orders expecting lower steel prices. At the same time, the energy sector grew as a result of extended gas field developments in the USA and an increase in Canada's oil exports.

In 2011, hot-rolled and galvanised steel prices increased 18% and 11%, respectively. Growing scrap prices contributed to the high volatility of steel product prices.

In 2012, moderate steel demand is expected, due to the global financial instability and high price volatility. In the USA, steel consumption is expected to grow in the energy sector and agriculture, and to pick up slightly in construction.

### EMERGING MARKETS

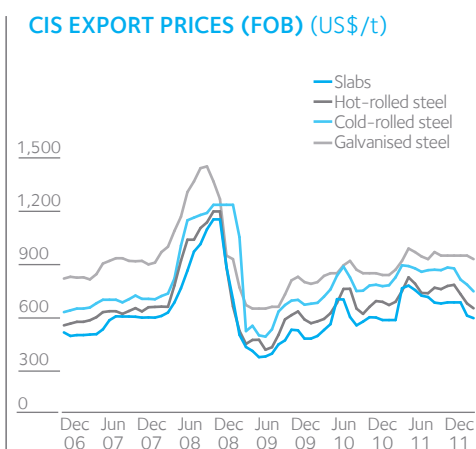
During the last decade, global steel production moved from the developed world to emerging markets and closer to new consumers. This movement poses a range of challenges. The new centres of steel production, in general, have very limited access to raw materials and are constrained by the availability of a qualified workforce, as well as problems caused by limited infrastructure. The growth of steel consumption in the emerging markets, including Russia, over the coming years will be driven by:

- Significant infrastructure development requirements;
- Increase in household consumption.

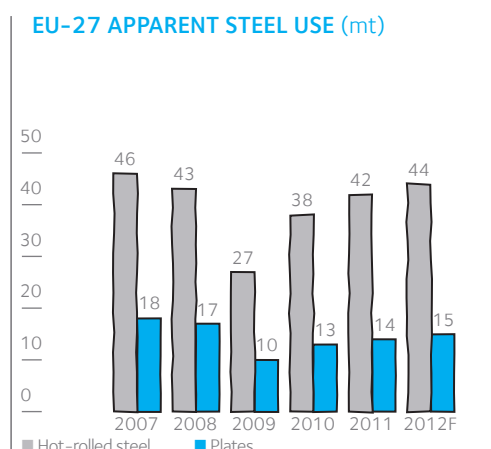
As the global economy deteriorated, the growth rate of emerging economies slowed down as well, but much less than for developed markets, from 7.3% in 2010 to 6.2% in 2011.

Industrial production in emerging economies slowed down too, from 11.3% in 2010 to 6.2% in 2011. A further slowdown to 5-6% is possible in 2012.

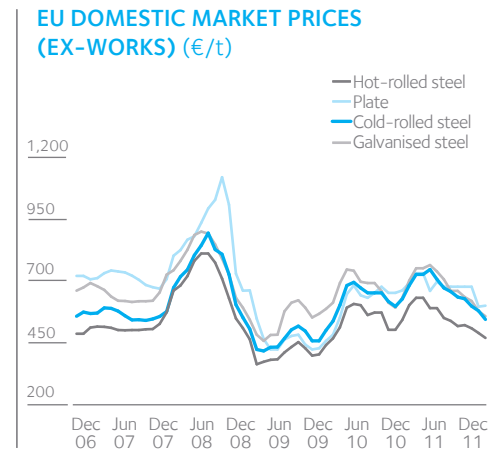
China remained the key growth driver in Asia. Even with the economic growth rates down from 10.4 in 2010 to 9.2% in 2011, it will stay in the lead: the forecasted growth rate for 2012 is around 8%. Apparent steel consumption growth in China in 2011 is estimated at 6%.



Sources: Metal Bulletin Research, MBR Coated Steels Monthly Tracker



Sources: GFMS Flat Steel Product 5 Year Forecast, CRU Global Slab Market Service



Source: Metal Bulletin Research

Without China, demand for steel in emerging markets in 2011 grew 4.1% against 13.5% in 2010.

In 2011 prices in emerging markets followed the global trends. By end 2011, flat steel prices in the Turkish market fell 14% from peak values at the beginning of the year. Flat steel import prices in the Far East fell 13% from the beginning of the year. China's domestic market can be considered as somewhat of an exception: the price fall there wasn't as steep (-5% in dollar terms). H2 negative trends were nonetheless unable to beat the H1 gains. As a result, FY2011 prices were up 12% y-o-y in China, 16% in Turkey, and 9% in the Far East.

Lower steel consumption in emerging markets and reduced economy growth rates in China could negatively impact price levels in the region in 2012. High production costs related to high prices for raw materials remain the key factor capable of limiting potential steel price dips.

### RUSSIAN STEEL MARKET

Russia remains a key market with great potential for growth in steel consumption driven by plans to rebuild the country and its infrastructure.

The expected implementation of these programmes will serve as a powerful growth driver for rolled steel consumption in the construction industry, infrastructure, heavy and power industries, etc. The home market, which consumes a significant part of high value added products, will become broader and more dynamic.

Russia's GDP growth in 2011 is estimated at 4.3% against 2010. Industrial production in 2011 increased by 4.7% y-o-y.

In 2011, rolled steel consumption growth is estimated at 11%, and 17% for long steel. Construction, machine building and energy sectors were the key drivers of demand. Demand from machine building was mainly supported by state support programmes. In 2010-2011 these programmes resulted in a more than three-fold increase in automotive steel consumption compared to the crisis period. In construction, consumption grew largely on account of flat and long steel demand. In 2011, crude steel output in Russia grew 2.4%; finished product output grew 3.2%.

In 2012 rolled steel consumption could grow in the range of 4-6%.

In our domestic market, 2011 prices grew 16% y-o-y for hot-rolled steel, 21% for cold-rolled steel, and 17% for galvanised steel.

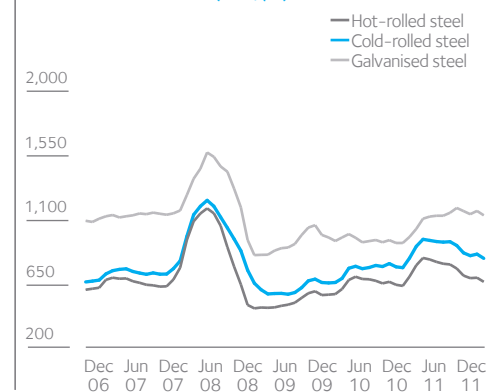
Prices are expected to increase in the beginning of 2012 driven by raw material prices and traditionally high export demand. By the end of the year, a seasonal price decrease is expected, particularly for construction products.

### APPARENT USE OF FLAT AND LONG PRODUCTS IN RUSSIA BY SECTORS

|                               | 2007        | 2008        | 2009        | 2010        | 2011        |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Steel consumption (mt)</b> | <b>38.3</b> | <b>33.5</b> | <b>23.7</b> | <b>32.9</b> | <b>38.2</b> |
| Tube & pipe                   | 5.8         | 5.1         | 4.8         | 6.9         | 7.1         |
| Machine building              | 6.7         | 6.0         | 2.7         | 4.7         | 5.2         |
| Construction                  | 22.5        | 19.1        | 12.8        | 17.2        | 20.5        |
| Others                        | 3.3         | 3.3         | 3.3         | 4.2         | 5.4         |
| Tube & pipe                   | 15%         | 15%         | 20%         | 21%         | 19%         |
| Machine building              | 18%         | 18%         | 11%         | 14%         | 14%         |
| Construction                  | 59%         | 57%         | 54%         | 52%         | 54%         |
| Others                        | 9%          | 10%         | 14%         | 13%         | 14%         |

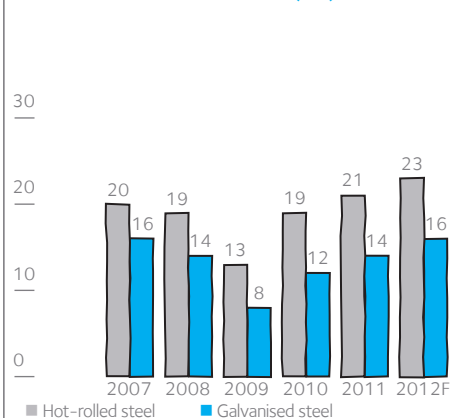
Source: IA "Metal Expert"

### RUSSIAN FEDERATION DOMESTIC MARKET PRICES (US\$/t)



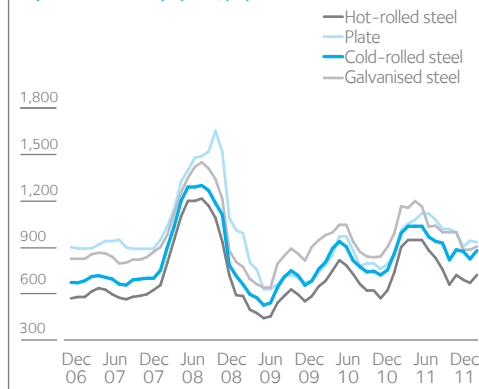
Source: MetalTorg

### US APPARENT STEEL USE (mt)



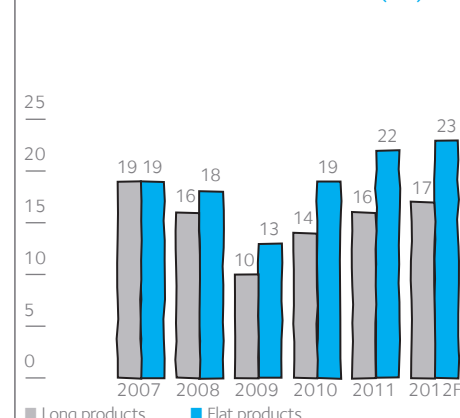
Sources: GFMS Flat Steel Product 5 Year Forecast, CRU Global Slab Market Service

### US DOMESTIC MARKET PRICES (EX-WORKS) (US\$/t)



Source: Metal Bulletin Research

### APPARENT STEEL USE IN RUSSIA (mt)



Source: IA "Metal Expert"

# PROGRESSING AGAINST OUR STRATEGY

Our strategy is aimed at sustaining the trust of our shareholders by delivering consistently high financial performance and business transparency. NLMK's platform for long-term growth opens a wide range of strategic opportunities for the Company to successfully tackle this challenge.

## MISSION

To increase the Company's long-term value through adopting and continuously improving the sustainable management and operational business model.

## BUSINESS MODEL

We control every stage of the value chain, while operating with a leading commitment to corporate responsibility

Upstream

Midstream

Downstream

Corporate  
Responsibility

## STRATEGIC OBJECTIVES

We have a number of new strategic objectives which drive long-term growth

- Maximise upstream integration into key resources
- Improve the cost-effectiveness of operations and auxiliary processes
- Maximise cost-effectiveness by improving quality and developing niche segments
- Maintain efficient and sustainable growth
- Operate in a safe, socially and environmentally responsible manner

## COMPETITIVE ADVANTAGES

When our business model and strategy work in unison, we have the following competitive advantages:


- Platform for sustainable growth
- Safe and efficient processes
- Flexible business model

 FOR MORE INFORMATION ON OUR BUSINESS MODEL

 FOR MORE INFORMATION ON OUR COMPETITIVE ADVANTAGES


### MEASURING OUR SUCCESS

We have a number of financial, operational and non-financial KPIs that help us measure the success of our strategy year-on-year.

 FOR MORE INFORMATION ON KPIs USED TO MONITOR OUR PROGRESS AGAINST OBJECTIVES

### MITIGATING OUR RISKS



We have a range of risks that we monitor which could adversely affect the performance of our strategy. The Group's risk management efforts are focused on mitigating any potential negative impact from these risks.

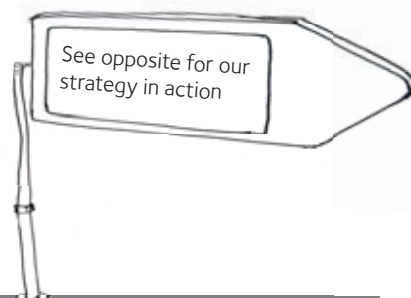
 FOR MORE INFORMATION ON THE RISKS WE FACE PROGRESSING AGAINST OUR STRATEGY

“2011 marked an important milestone in the history of the Company: we successfully launched, for the first time in the last 25 years, what is one of the most advanced blast furnaces in the world. “




Vladimir Lisin  
Chairman of the Board of Directors

## STRATEGIC OBJECTIVES

| DESCRIPTION   | 2011 ACHIEVEMENTS  | NEXT STEPS   |
|---|--|--|
| <h3>MAXIMISE UPSTREAM INTEGRATION INTO KEY RESOURCES</h3> <p>Priority focus on developing the production of deficit key resources where there is no or partial self-sufficiency. Economic benefit maximisation and the level of resource security are used as criteria to assess the depth of vertical integration.</p> | <ul style="list-style-type: none"> <li>Expansion of upstream capacities at Stoilensky to increase production of iron ore concentrate;</li> <li>Improvement of coke chemical and BF operations to be able to use lower quality coals;</li> <li>Growth in scrap collecting capacities to enhance self-sufficiency in scrap.</li> </ul>   | <ul style="list-style-type: none"> <li>Construction of a pelletising plant to switch from purchased material to captive supply;</li> <li>Development of the greenfield coking coal mining projects to cover a significant part of our coal needs;</li> <li>Further expansion of own electricity-generating capacities using waste energy.</li> </ul>  <p><b>31</b> FOR MORE INFORMATION ON OUR PROJECTS TO INCREASE UPSTREAM INTEGRATION</p>  |
| <h3>IMPROVE THE COST-EFFECTIVENESS OF OPERATIONS AND AUXILIARY PROCESSES</h3> <p>Through our capex programme and by streamlining our main and auxiliary processes we aim to realise our internal potential to enhance economic efficiency to the fullest.</p>   | <ul style="list-style-type: none"> <li>Projects aimed at cutting costs and improving operational efficiency;</li> <li>Programmes aimed at boosting operational energy efficiency;</li> <li>Centralisation of accounting services at our sites in Russia to improve process and personnel efficiency;</li> <li>Development of IT systems to receive accurate and timely information on business performance.</li> </ul> | <ul style="list-style-type: none"> <li>Next stage of our capex programme is focused on enhancing the economic efficiency of operations at all our sites;</li> <li>Further optimisation of auxiliary processes;</li> <li>Systematisation and implementation of business process KPI at all management levels;</li> <li>Centralisation of IT services at NLMK's Russian sites to improve process and personnel efficiency.</li> </ul>  <p><b>34</b> FOR MORE INFORMATION ON OUR EFFORTS TO IMPROVE THE COST-EFFECTIVENESS OF OUR BUSINESS</p> |



## STRATEGIC OBJECTIVES

| DESCRIPTION   | 2011 ACHIEVEMENTS   | NEXT STEPS  |
|---|---|---|
| <h3>MAXIMISE COST-EFFECTIVENESS BY IMPROVING QUALITY AND DEVELOPING NICHE SEGMENTS</h3> <p>Focus on continuous product quality improvements and developing technical competitive advantages to expand the range of sectors we supply to and gain additional economic benefits from selling premium products.</p>                            | <ul style="list-style-type: none"> <li>• Upgrade of steelmaking operations to improve quality and add new grades of steel;</li> <li>• GO steel output and quality growth at Novolipetsk and VIZ-Stal;</li> <li>• Development of Q&amp;T plate production at NLMK Clabecq;</li> <li>• Acquisition of an electrical steel service centre in India.</li> </ul>  | <ul style="list-style-type: none"> <li>• Development of rolling operations at Novolipetsk and of steelmaking and metalware production at NLMK Russia Long to manufacture premium niche products;</li> <li>• Complete project on the development of wide thick plate production at NLMK DanSteel.</li> </ul> |
|   | <p><b>35</b> FOR MORE INFORMATION ON OUR PROJECTS TO BOOST PRODUCT QUALITY</p>  | <p><b>72</b> FOR MORE INFORMATION ON OUR RESEARCH &amp; DEVELOPMENT PLANS</p>   |
| <h3>MAINTAIN EFFICIENT AND SUSTAINABLE GROWTH</h3> <p>Economically effective growth in production and sales of products marked by significant growth potential, expected capacity deficit or our local competitive advantages.</p>  | <ul style="list-style-type: none"> <li>• Construction of 3.4 mt/y Blast Furnace (BF) and expansion of BOF operations completed.</li> </ul>   | <ul style="list-style-type: none"> <li>• Complete the 1.5 mt/y EAF Kaluga Mini Mill construction project. Corresponding growth in long steel capacities in Russia by ~70%;</li> <li>• Complete the construction of the reversing cold-rolling mill at Novolipetsk.</li> </ul>                               |
|   | <p><b>37</b> FOR MORE INFORMATION ON OUR EXPANDED CRUDE STEEL PLATFORM</p>  | <p><b>36</b> FOR MORE INFORMATION ON OUR KALUGA MINI MILL PLANT</p>   |
| <h3>OPERATE IN A SAFE, SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE MANNER</h3> <p>Production processes brought in line with the most stringent OHS requirements. Consistent minimisation of the Company's environmental footprint. Creating a favourable social environment at the sites, as well as for the communities where we operate.</p> | <ul style="list-style-type: none"> <li>• Large-scale environmental projects completed (central dust exhaust system at the Sintering plant #2 (Stage 1));</li> <li>• Upgrade of existing equipment with significant environmental effect;</li> <li>• Two thirds of NLMK employees went through trainings;</li> <li>• Recycling (for recultivation purposes) of a part of previously accumulated waste.</li> </ul>                                | <ul style="list-style-type: none"> <li>• Complete construction and revamping of environmental projects in line with Stage 2 of the Technical Upgrade Programme.</li> </ul>   |
|   | <p><b>74</b> FOR MORE INFORMATION ON OUR CR RESULTS IN 2011</p>   | <p><b>38</b> FOR MORE INFORMATION ON OUR ENVIRONMENTAL PROJECTS</p>   |

# MAXIMISE UPSTREAM INTEGRATION INTO KEY RESOURCES

## MANAGING COKE AND COAL PRICES GROWTH

The Company is developing a number of initiatives aimed at reducing any impact from the volatile coal and coke prices on its production costs.

NLMK is installing Pulverised Coke Injection (PCI) technology at 90% of its blast furnace operations in Lipetsk by the end of 2013 in order to reduce coke and natural gas consumption per tonne of pig iron by 20% and 60%, respectively.

The Company has also registered a patent for using tar pitch in the coke mix in order to improve the quality of coke used in the blast furnaces. In addition, the Company is testing other new technologies, including hot stamping of the coal mix, in an effort to improve the quality of the coke produced from the medium-quality coking coal grades and hence further decrease coal costs.

Importantly, the Company has an option to develop its greenfield coking coal projects – we are planning to develop the coking coal deposits of Zhernovskoye-1 and Zhernovski Gluboki (the deposit is located below the Zhernovskoye-1) in Western Siberia and Usinsky-3 in North-West Russia.



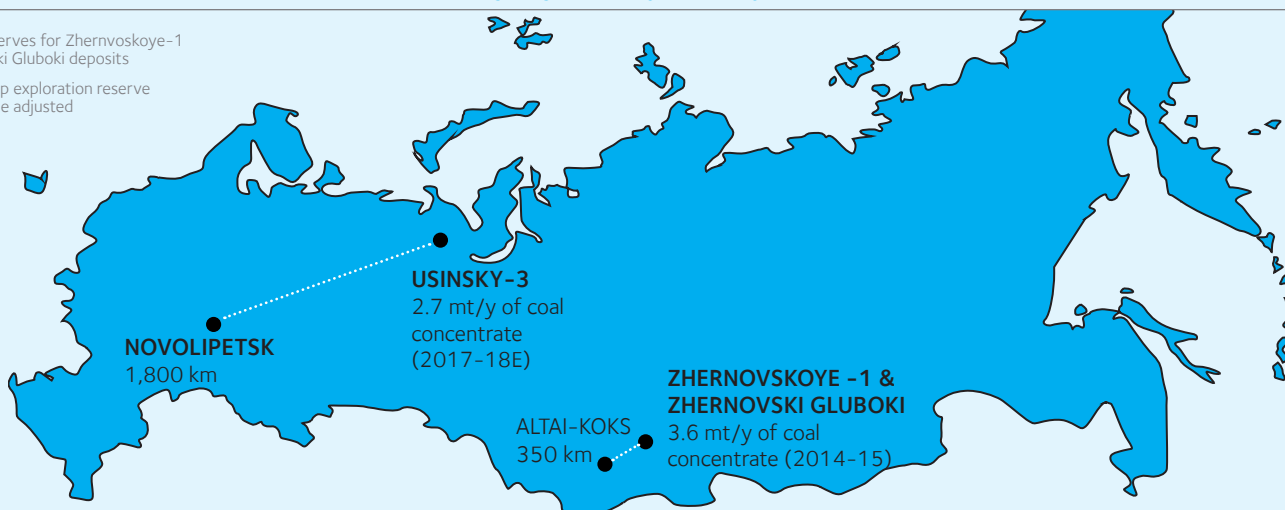
The Company is developing a number of initiatives aimed at reducing any impact from the volatile coal and coke prices

### UPSTREAM DEVELOPMENT – COAL

| Deposit         | Coal grades | Reserves (mt) | Status   |
|-----------------|-------------|---------------|--|
| Zhernovskoye-1* | Zh, GZh     | 263           | <b>Final design planning:</b><br>At the final stages of design planning for the mine, beneficiation plant, transport infrastructure and energy supplies. The mine site is being prepared for geological engineering surveys. Substation and temporary OHLs are in place. A test hole has been drilled; hydrogeologic indicator holes are being made. Title documents for the land required for design are being filed. |
| Usinsky-3       | 2Zh, KZh    | 227**         | <b>Exploration:</b><br>Positive state expertise review for the “Geological exploration project” received from the State Reserves Commission (GKZ). 25,420 m of prospecting holes drilled. Giprougol Design Institute is working on the “Conditions Feasibility Study”. East Coal and Chemical Institute VUKHIN is investigating the quality of Usinsky coals.  |

\* Combined reserves for Zhernovskoye-1 and Zhernovski Gluboki deposits

\*\* After follow-up exploration reserve amounts will be adjusted



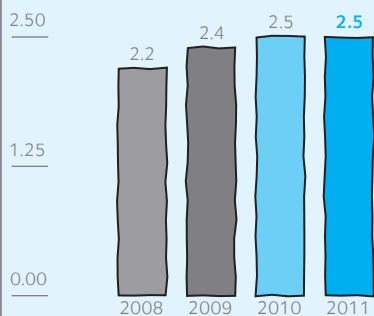
# MAXIMISE UPSTREAM INTEGRATION INTO KEY RESOURCES

## DEVELOPING A NETWORK OF SCRAP COLLECTION AND PROCESSING SITES

As part of its development programme, the Company's scrap collecting and processing unit – Vtorchermet NLMK – has established 18 new scrap metal processing sites in various regions across Russia. The largest investment project is a new scrap processing site in Podolsk (Moscow region) that is important for NLMK's Kaluga EAF Mini Mill (NLMK Russia Long) currently under construction.

By 2016 NLMK Group's self-sufficiency in in-house scrap should increase to 86%, considering the 40% increase in steelmaking capacities in 2011-2013.

GROUP SCRAP PROCESSING CAPACITY (mt/y)



NLMK is the largest scrap collector and processor in Russia with self-sufficiency in this material of over 80%





NLMK started the construction of a Pelletising Plant at Stoilensky, with a capacity of 6 mt of pellets per year

**US\$1 bn**  
Investments into Stoilensky

**6 mt/y**  
Pellet output

**18 mt/y**  
Iron ore concentrate output

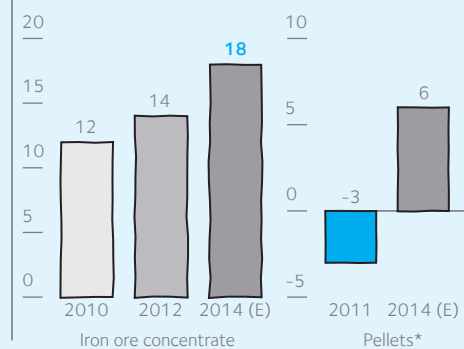
## INCREASING OUR IRON ORE PELLET PRODUCTION

As part of the Group's strategy of strengthening vertical integration, NLMK started the construction of a Pelletising Plant at Stoilensky, with a capacity of 6 mt of pellets per year. The project will encompass not only the construction of the Pelletising Plant but will also involve the development of a number of infrastructure facilities to supply raw materials for the production of high-grade pellets (with Fe content above 65%).

In order to ensure the required raw material supplies for the Pelletising Plant as well as maintaining iron ore supplies to the blast furnaces, a 30% increase in iron ore output as compared to 2011 level at Stoilensky's operating mine is planned.

The construction of the Pelletising Plant is expected to be completed in 2014 and it will be able to fully cover the Company's pellet requirements starting from 2015 (considering the launch of the 3.4 mt/y Blast Furnace #7 at Novolipetsk).

**EXPANSION OF IRON ORE CONCENTRATE AND PELLET CAPACITY (mt)**



\* As at of the end of year

FOR INFORMATION  
28 ON OUR STRATEGY

62 NLMK RUSSIA RAW MATERIALS  
OPERATING RESULTS

# IMPROVE COST-EFFECTIVENESS OF OUR OPERATIONS AND AUXILIARY PROCESSES

## RECOVERY COGENERATION PLANT

The new Recovery Cogeneration Plant at Novolipetsk is an innovative facility comprising three 50MW turbine generators.

From September 2011, this plant has been receiving and processing BF gas from Blast Furnace #7, increasing Novolipetsk's generation capacity by 150 MW to 482 MW. This has raised the level of self-sufficiency in in-house energy at the plant to circa 50%.

The European Bank of Reconstruction and Development (EBRD) has extended a €125 million credit to finance this project and has awarded it a prize for its model integrated energy saving strategy, the promotion of best management practices and skills using innovative environmental technologies and energy consumption solutions.

As a result of this investment, gross emissions will be reduced over 15 fold.

The Company is thus well on target on its programme aimed at the efficient use of secondary energy resources and the complete recycling of BF gas.

**US\$220 m**

Total capex

**360,000 m<sup>3</sup>/hour**

Reuse of BF gas

**+150 MW**

Increase in generation capacity



The new Recovery Cogeneration Plant at Novolipetsk is an innovative facility comprising three 50MW turbine generators



58 FOR INFORMATION ON NLMK RUSSIA OPERATING RESULTS

This project raised the level of self-sufficiency in in-house energy at Novolipetsk to about 50%

# MAXIMISE COST-EFFECTIVENESS BY IMPROVING QUALITY AND DEVELOPING NICHE SEGMENTS



NLMK is able to produce slabs with thicknesses of up to 355 mm for further conversion into thick plate, including at NLMK's subsidiaries in Europe, NLMK DanSteel and NLMK Clabecq



The steelmaking and secondary steelmaking projects enabled the Company to improve the quality of its existing product portfolio

## IMPROVING STEEL QUALITY

Following the launch of the new BOF at the Lipetsk site, NLMK has significantly enhanced its secondary treatment facilities, including the construction of vacuum degassing units and ladle furnaces. These additions have enabled the Company to markedly improve the quality of its existing product portfolio and to enter niche markets, offering new high-quality products for the automotive industry, construction, the manufacture of white goods and electrical engineering.

At the same time, the Company has revamped its 2.5 mt/y Continuous Casting Machine (CCM-8) to increase output, expand the product mix and ensure a consistently high quality of concast slabs for further conversion into flats. Following the CCM-8 revamp, NLMK was able to start the production of slabs with thicknesses of up to 355 mm for further conversion into thick plate, including at NLMK's subsidiaries in Europe, NLMK DanSteel and NLMK Clabecq.

**6** FOR INFORMATION ON OUR  
BUSINESS MODEL

# MAINTAIN EFFICIENT AND SUSTAINABLE GROWTH

## DEVELOPING DOWNSTREAM BUSINESSES

In line with our strategy of building a more diversified product offering, NLMK has purchased the remaining 50% stake interest in Steel Invest and Finance (the former joint venture with the Duferco Group, SIF). The transaction has significantly enhanced our international downstream portfolio through the complete integration into the Group of 7 rolling mills with a total capacity of over 5.5 mt/y and a combined output in 2011 of 3.4 mt/y, as well as a network of distribution and service centres.

The acquisition has enabled NLMK to:

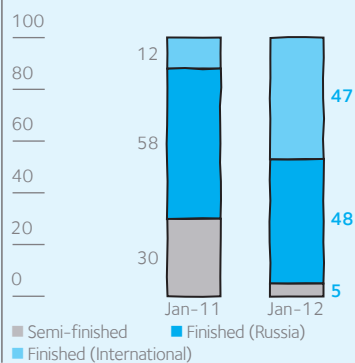
- Further increase its downstream capabilities;
- Ensure a better product mix and sector exposure;
- Increase geographic diversification; and
- Ensure stable offtake of our expanded slab production in Russia.

Last year, NLMK formed the NLMK International Divisions that includes all the rolling assets of SIF together with NLMK Indiana and NLMK DanSteel. The total flat-rolling capacity of the new Divisions is over 7 mt/y.

Our international downstream portfolio represents 9 flat steel rolling mills with a total capacity of over 7 mt/y



### INCREMENTAL STEEL SUPPLY HEDGED THROUGH CAPTIVE ROLLING (%)



The long steel plant in the Kaluga region will increase NLMK's capacity in long steel production by around 70%, to 3.5 mt/y

## 70% GROWTH IN LONG STEEL CAPACITY

The Company is continuing to construct the 1.5 mt/y long steel plant in the Kaluga region, 100 km south from Moscow. An EAF and rolling mills will be put in operation consecutively. The Kaluga Mini Mill project is included in the list of top-priority investment projects in the Russian Steel Industry Development Strategy to 2020.

This is a greenfield project that will increase NLMK's capacity in long steel production by around 70%, to 3.5 mt/y. When the plant goes live, a total of over 1,300 employees with competitive salaries and social benefits will be involved in production and support activities.

61 FOR INFORMATION ON NLMK RUSSIA LONG OPERATING RESULTS



The Blast Furnace #7 is considered to be one of the most efficient facilities in the world



Expansion of the blast furnace capacity was matched by the expansion of the basic oxygen furnace capacity

TO VIEW A VIDEO OF THE BLAST FURNACE IN ACTION SEE [WWW.ARA2011.NLMK.COM](http://WWW.ARA2011.NLMK.COM)

## EXPANSION OF THE LOW COST PRODUCTION PLATFORM IN LIPETSK

### NEW BLAST FURNACE

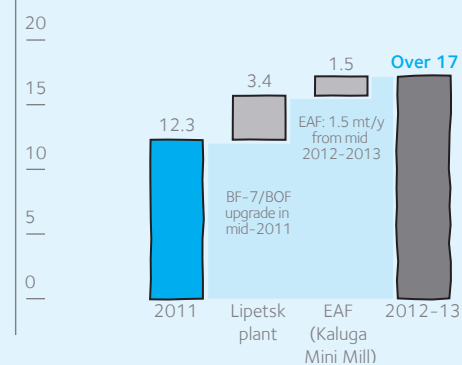
In the second half of 2011, NLMK commissioned its new Blast Furnace #7 with a capacity of 3.4 mt/y of pig iron at its flagship site in Lipetsk, considered to be one of the most efficient plants in the world. This project has increased the Company's blast furnace capacity to 12.5 mt/y of pig iron.

### NEW BASIC OXYGEN FURNACE

Expansion of the blast furnace capacity was matched by the expansion of the basic oxygen furnace capacity including construction of a new 300 tonne BOF at Novolipetsk, which boosted the site steelmaking capacity at the Lipetsk production site by 36% to 12.4 mt/y.

The new BOF employs the latest technology to reduce the impact of metallurgical processes on the environment and has been equipped with a high-efficiency system for the collection and cleaning of gas and dust emissions generated during the charging and tapping. Two other BOFs will later be equipped with similar systems, reducing dust emissions in BOF Shop #2 by 77%.

### NMLK GROUP CRUDE STEEL CAPACITY GROWTH: +40% (mt/y)



# OPERATE IN A SAFE, SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE MANNER



RUB4 bn  
(US\$135 m)

Environment capex at Novolipetsk

## ENVIRONMENTAL CAPEX

In 2011 the main production site in Lipetsk of NLMK allocated approximately RUB4 billion (US\$135 m) to environmental protection projects. To date, around 100 environmental projects aimed at revamping and upgrading process equipment and operations have been completed.

US\$135 million allocated to environmental protection projects

## NEW WASTE NEUTRALISATION PLANT

NLMK has finished the installation of a new industrial waste neutralisation plant with the capacity to process 1,200 t of waste per annum. It will be used to burn low-hazard waste materials generated by the Company's main production site in Lipetsk, including oiled cloth, sawdust, paper and wooden packaging and soil contaminated with oil products, with minimum environmental impact.

The technical solution used at the new facility ensures almost complete waste incineration, which will reduce the environmental impact on the atmosphere by over 20 fold, compared to previously employed technologies.





## ASPIRATION SYSTEM UPGRADING

The upgrade of the aspiration system in the refractory shop at Novolipetsk to improve the efficiency of its gas cleaning equipment to the level of best available technologies has been completed. This project is part of the Company's plan to minimise the impact of steel production on the atmosphere and to improve local ecology.

The complex revamp of the gas cleaning system, which includes the installation of a new type of filter and a more efficient end-of-pipe technology, has reduced emissions of dust generated by the initial material preparation process by almost 80%. All entrapped dust is recycled. Levels of residual dust in the outgoing air will be reduced more than 6 fold.

This project follows the recent overhaul of the gas exhaust ducts with a secondary emissions collection and cleaning system at the Lipetsk site. It helped to reduce the environmental impact of Novolipetsk steelmaking facilities by over a half and enabled the plant to use the collected gases for in-house power generation.

Currently NLMK is developing a number of further projects aimed at a significant reduction of emissions at its core production assets.

74 FOR INFORMATION ON OUR CORPORATE RESPONSIBILITY ACTIVITY



The complex revamp of the gas cleaning system includes the installation of a new type of filter and a more efficient end-of-pipe technology

**80%**  
Reduction in emissions

# MONITORING OUR PERFORMANCE YEAR-ON-YEAR

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

## STRATEGY

Each of these KPIs helps measure our progress against the strategy and is reported on a yearly basis.

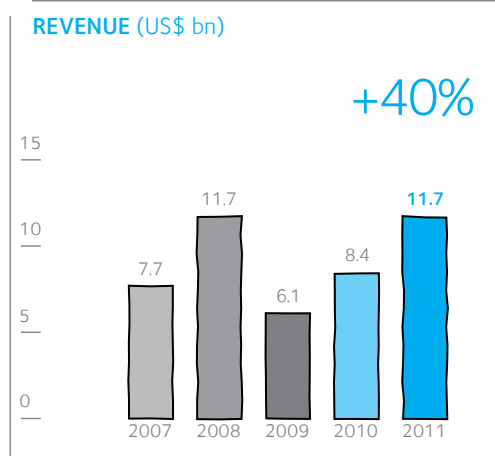
 FOR MORE DETAILED INFORMATION ON OUR STRATEGY

## RISK

These indicators might be affected by various types of market, industry, operating, investment, financial and social risks.

 FOR MORE INFORMATION ON OUR RISK MANAGEMENT

## FINANCIAL KEY PERFORMANCE INDICATORS



**DEFINITION**

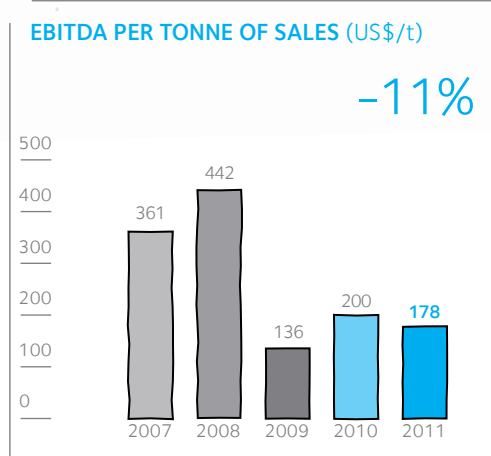
The funds received by NLMK from the sale of products and services.

**PERFORMANCE**

Higher sales, consolidation of rolling assets.

**OUTLOOK FOR 2012**

We expect an increase in revenue mainly due to growth of finished product sales and improvement in the product mix.



**DEFINITION**

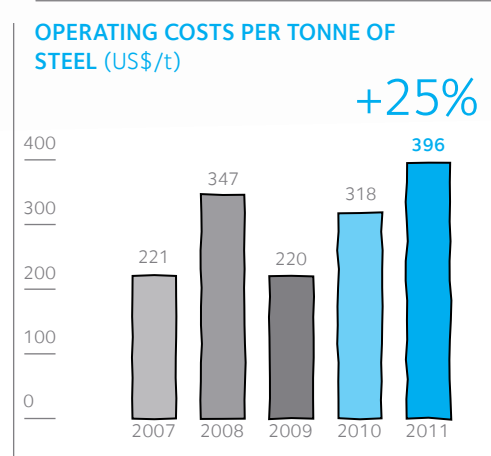
The profit per tonne of sold steel products.

**PERFORMANCE**

Insignificant decrease in profitability, higher steel product sales.

**OUTLOOK FOR 2012**

In 2012 we expect positive dynamics for this indicator.



**DEFINITION**

Cash costs incurred in producing one tonne of BOF steel in Russia (consolidated).

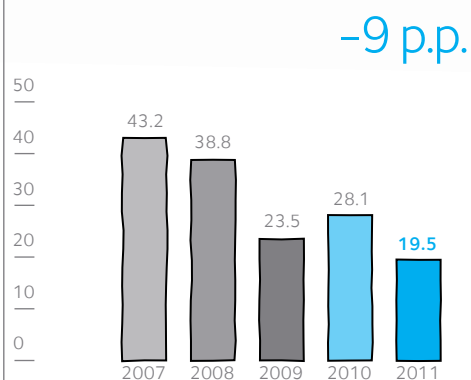
**PERFORMANCE**

NLMK is one of the most cost-efficient steelmakers in the world. This is achieved through resource self-sufficiency and advanced process equipment.

**OUTLOOK FOR 2012**

The average for this indicator could be affected by the rise in raw material prices. Nonetheless, NLMK will retain its cost leadership among global steelmakers given its highly efficient production assets and vertical integration.

### EBITDA MARGIN (%)



#### DEFINITION

Company's profitability before interest, income tax, depreciation and amortisation.

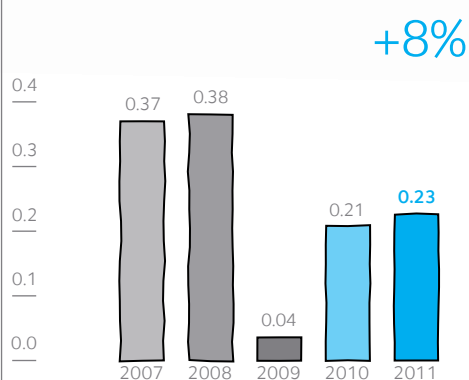
#### PERFORMANCE

The Company's profitability decreased as a result of higher prices for raw materials.

#### OUTLOOK FOR 2012

In 2012 we expect NLMK's margins and financial performance to stable.

### NET INCOME PER SHARE (US\$)



#### DEFINITION

Income per ordinary share.

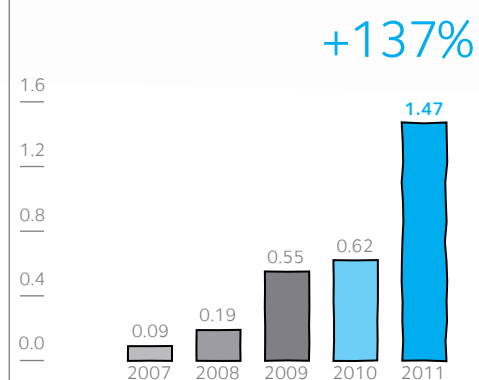
#### PERFORMANCE

In 2011 NLMK's net income increased slightly.

#### OUTLOOK FOR 2012

In 2012 this indicator is expected to improve.

### NET DEBT/EBITDA



#### DEFINITION

A measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its 12M EBITDA.

#### PERFORMANCE

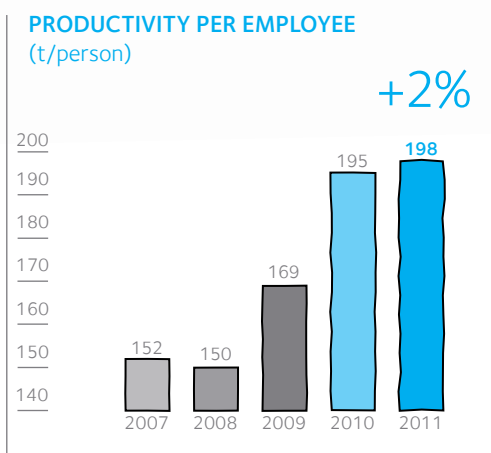
Net debt/EBITDA increased following the consolidation of debt of the newly acquired rolling assets.

#### OUTLOOK FOR 2012

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

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

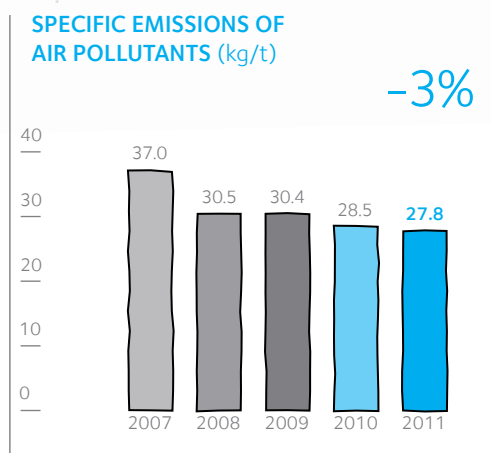
## NON-FINANCIAL KEY PERFORMANCE INDICATORS



**DEFINITION**  
Crude steel production volume per employee.

**PERFORMANCE**  
Positive changes were driven by production efficiency improvements.

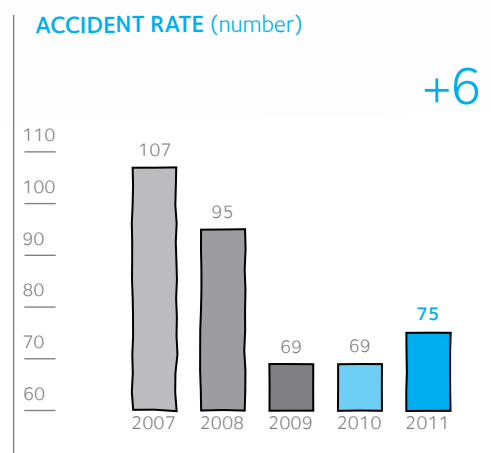
**OUTLOOK FOR 2012**  
We expect labour productivity to increase as a result of improved equipment efficiency as well as due to further headcount streamlining.



**DEFINITION**  
Total volume of air pollutants per tonne of steel.

**PERFORMANCE**  
This reduction in the adverse environmental impact is driven by the introduction of new equipment and consistent investment in environmental programmes.

**OUTLOOK FOR 2012**  
Specific emissions into the air are expected to reduce as we implement environmental efficiency projects and improve our processes.



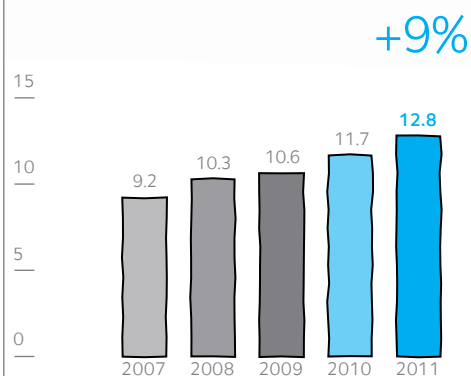
**DEFINITION**  
Number of accidents at NLMK Group's Russian assets per year.

**PERFORMANCE**  
This change is associated with the significantly increased amount of construction and assembly activities related to the launch of new facilities.

**OUTLOOK FOR 2012**  
Labour protection and occupational safety systems are being improved. NLMK management will apply maximum effort to reduce the number of industrial accidents.

## OPERATIONAL KEY PERFORMANCE INDICATORS

**STEEL PRODUCT SALES (mt)**



**DEFINITION**

Consolidated steel product sales.

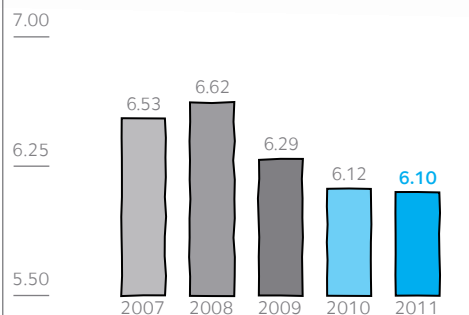
**PERFORMANCE**

This indicator improved for the Group mainly due to the consolidation of foreign rolling assets and the launch of new equipment.

**OUTLOOK FOR 2012**

In 2012, total sales are expected to grow considering fully loaded capacities as a result of new equipment launches, as well as sales by our foreign assets.

**ENERGY CONSUMPTION PER TONNE OF STEEL, BOF PRODUCTION (Gcal/t)**



**DEFINITION**

Electric energy consumption to produce one tonne of steel.

**PERFORMANCE**

Specific energy consumption decreased even as steel output grew as a result of energy efficiency improvement initiatives.

**OUTLOOK FOR 2012**

The implementation of planned Technical Upgrade Programme activities will allow us to approach best-in-class energy efficiency levels.

# MANAGING AND MITIGATING OUR RISKS

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

## RISK MANAGEMENT POLICY

The objective of risk management is to safeguard the interests of shareholders, stakeholders and society through effective management of corporate and operational risk. Risk management is essential to the delivery of the Group’s business objectives and achievement of sustainable shareholder value.

The management of risk is a continuous, transparent and integral process linked to the strategy for the business, the environment in which it operates and the delivery of business objectives. It involves all Company employees at various stages through:

- The identification and constant monitoring of risks;
- The assessment of potential risk impact upon Company operations;
- The distribution of responsibility by risk owners;
- The development of risk mitigation actions;
- The monitoring of critical risks; and finally
- Risk management reporting.

In 2008–2009, NLMK engaged Marsh Risk Consulting, a leading international risk management consultant, in a joint exercise to assess the effectiveness of the existing risk management system. From this, we developed recommendations as to how to improve it and drafted internal documents regulating the Company’s risk management process. Commencing in 2010, the Company now organises its risk management process independently.

## RISK MANAGEMENT RESPONSIBILITIES

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

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



## MITIGATING OUR RISK

**New energy generating capacities significantly reduce the risk of rising prices by the natural monopolies, as well as environmental risks**

The new 150 MW Recovery Cogeneration Plant has started receiving and processing BF gas from Blast Furnace #7. With the new plant that runs on by-product BF and steelmaking gases, the level of energy self-sufficiency will increase to circa 50%, even given the expansion of the NLMK’s BF and steelmaking capacities. It will also reduce the Company’s environmental footprint.

34 FOR MORE INFORMATION ON THIS PROJECT

# MARKET RISKS

| DESCRIPTION  | IMPACT LEVEL | MITIGATION MEASURES  | 2011 DEVELOPMENTS  |
|--|--------------|--|--|
| <h2>RAW MATERIALS SUPPLIES</h2> <p>Risks related to raw materials and supplies are among the most significant for the Company. Raw material supplies are subject to risks specific to each individual sector of the market.</p>  | <p>●</p>     | <p>NLMK has a high degree of self-sufficiency in raw materials. Measures to mitigate the risks associated with the availability of raw materials stem from our strategy to develop our own raw materials base. At present, NLMK is fully self-sufficient in iron ore concentrate, fluxes, coke and to a large extent in ferrous scrap.</p> <p>In addition, for a number of years now, the Company has been pursuing a consistent policy of diversifying its supplier base.</p> <p>Currently all purchases of raw materials, supplies and equipment are based on market analysis, tenders and negotiations with suppliers for long-term contracts and fixed purchase prices. NLMK Trading House, which in part centralises the commercial functions for Group businesses, is a member of the NLMK Group. In this way, the Company is able to minimise its purchasing costs and to streamline its transportation expenses.</p> | <p>Slab cash cost in 2011 was US\$396/t, one of the lowest in the global steel industry.</p>   |
| <h2>FINISHED PRODUCT SALES</h2> <p>Risks related to sales of products in various markets remain among the most significant for the Company. The sale of the Company's products is subject to many vagaries in the marketplace, including:</p> <ul style="list-style-type: none"> <li>• The cyclical nature of demand for steel;</li> <li>• Price risks due to volatility of steel prices, both international and domestic;</li> <li>• International and domestic macro-economic risks, including economic growth rates, inflationary expectations and energy prices;</li> <li>• Imposition of quotas and other trade barriers in key export markets; and</li> <li>• Increased competition from other producers, especially steelmakers in developing countries.</li> </ul> | <p>●</p>     | <p>The impact of these risks upon Company sales is mitigated through:</p> <ul style="list-style-type: none"> <li>• Sales diversification by region and by product;</li> <li>• A flexible sales system that allows product flows to be shifted between markets;</li> <li>• Production of niche steels;</li> <li>• Finished product manufacturing close to key consumers;</li> <li>• Continuous quality improvements;</li> <li>• Service improvements, including prompt customer negotiation of acceptable terms of delivery and payment.</li> </ul>   | <p>Growth in steel sales by 9% to 12.8 mt in 2011.</p>   |
| <h2>RISKS RELATED TO DOMESTIC NATURAL MONOPOLIES</h2> <p>Risks associated with the transportation of raw materials and semi-finished products to production sites and delivery of products to customers.</p> <p>Key energy resources (natural gas, electric power) are supplied by Russian natural monopolies, giving rise to the risks of government regulation of prices in the medium term.</p>   | <p>●</p>     | <p>With regard to transport, the Group mitigates its logistic risks through long-term cooperation with the Independent Transportation Company (NTK), which has its own fleet of rail cars and provides uninterrupted deliveries of raw materials and finished products to and from Group businesses.</p> <p>In respect to energy, the Company procures resources on the market and pursues a policy of increasing its self-sufficiency in energy resources, at the same time making consistent efforts to reduce natural gas consumption. In order to mitigate regulatory risks in the energy sector, the Company participates in the work of standing advisory bodies and public organisations.</p>   | <p>Up to circa 50% of the energy needs of our main production site are covered by in-house generation using by-product gases from our blast furnace operations.</p> <p>Through the introduction of Pulverised Coal Injection (PCI) technology and by using tar pitch in our blast furnace operations, we were able to reduce natural gas consumption requirements for pig iron production.</p> |

- Critical
- Significant
- Insignificant

## OPERATING RISKS

| DESCRIPTION  | IMPACT LEVEL | MITIGATION MEASURES   | 2011 DEVELOPMENTS   |
|--|--------------|---|---|
| <p><b>TECHNOLOGICAL RISKS</b></p> <p>Technological risks involve the possibility of losing all or part of a property as a result of industrial accidents, and the risk of reduced earnings due to interruptions in operations.</p> | ●            | <p>NLMK Group takes precautionary measures aimed at preventing accidents and hazardous events. A reasonable stock of work-in-progress and auxiliary supplies is maintained in case of an emergency shutdown. Property is safeguarded; alarm and fire systems are in place at the production facilities.</p> <p>NLMK Group's major businesses take out insurance for their property assets with priority reinsurance in major Western markets. Prominent international brokers are invited to participate in tenders for the development of the most effective insurance and protection programmes, which provide for the most favourable pricing terms, as well as guaranteed insurance indemnity paid in case of an insured event.</p> | <p>The negative experience related to the stoppage at one of the EAFs at NSMMZ stimulated the risk management process to avoid similar occurrences in the future.</p> |

## INVESTMENT RISKS

|   |   |   |   |
|---|---|---|---|
| <p><b>PROJECT RISKS</b></p> <p>Risks associated with completing the development programme projects.</p> | ● | <p>The Technical Upgrade Programme projects are thoroughly assessed. The impact of the project risks is mitigated through:</p> <ul style="list-style-type: none"> <li>• A rigorous analysis of the markets and consumer requirements in order to adapt the investment programme to meet their needs;</li> <li>• NLMK Group's Strategic Planning Committee continuously monitors the progress of the capex programme.</li> </ul> | <p>We expanded our open cast mine boundaries and launched new iron ore concentrate beneficiation capacities.</p> <p>We launched one of the world's most advanced blast furnaces and a new BOF.</p> <p>We successfully commissioned a new pre-painting line.</p> |
|---|---|---|---|

## FINANCIAL RISKS

|  |   |   |  |
|--|---|---|--|
| <p><b>CURRENCY RISKS</b></p> <p>Risks related to exchange rate fluctuations. The bulk of our revenue is expressed in foreign currency, while a major part of our costs is incurred in roubles.</p> | ● | <p>In order to mitigate currency risks, the Company's export programme assumes projected exchange rate movements for major currencies. When concluding export contracts, the Company hedges its foreign currency operations through matching the currencies of cash inflows and outflows.</p> <p>The Company does not exclude the possibility of using derivative instruments to manage currency risks in line with its approved hedging strategy and policy.</p> | <p>NLMK has developed and approved a policy and strategy for hedging financial risks. Their implementation will ensure control over financial risks. We plan to update our hedging strategy annually, adapting it to the changing financial markets.</p> |
|--|---|---|--|

## ACQUISITION AND DISPOSAL RISKS

|   |   |  |  |
|---|---|--|--|
| <p>The Company has been actively pursuing a strategy of growth through acquisitions. At present, the key risks are associated with any failure of these acquisitions to produce expected results.</p> | ● | <p>In order to mitigate this risk, the Company is pursuing a balanced policy towards acquisitions. We are forming joint (international and Russian) management teams, becoming actively involved in integrating the acquired business into the Group structure and using internal resources to optimise the newly acquired assets' business processes.</p> | <p>NLMK has extensive M&amp;A activity experience.</p> <p>Steel Invest and Finance rolling mills situated in the EU and the USA allow us to diversify our product offering and to assure stable sales of Russian semi-products to key sales markets in Europe and the USA.</p> |
|---|---|--|--|

## FINANCIAL RISKS *continued*

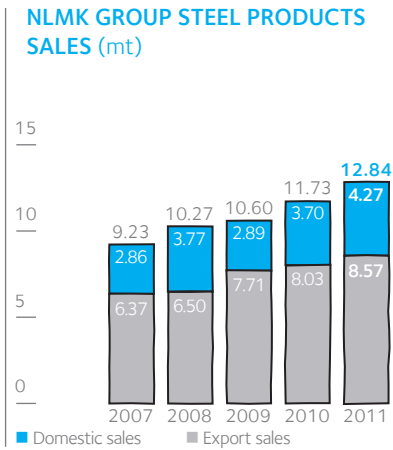
| DESCRIPTION   | IMPACT LEVEL | MITIGATION MEASURES  | 2011 DEVELOPMENTS  |
|---|--------------|--|--|
| <p><b>RISK OF AN IMPAIRED INVESTMENT CASE</b></p> <p>Risks associated with how markets perceive the Company.</p>  | ●            | <p>In order to mitigate this risk, the Company adopts balanced development and information policies. NLMK organises activities aimed at enhancing its information transparency on a regular basis, thus allowing the investment community to effectively evaluate the Company's current status. Our management team regularly comments on key decisions made by the Group and shares business-related information.</p> | <p>Business transparency, information on all key events published on our site, regular meetings with investors and analysts.</p> |
| <p><b>CREDIT RISK</b></p> <p>Some of the Company's products are delivered on terms of payment deferment, giving rise to the risk of failure to pay on the part of our counterparties.</p> | ●            | <p>To mitigate this risk the Company thoroughly analyses all counterparties based on a scoring model for risk assessment and uses various transaction security instruments.</p> <p>A standing committee on payables and receivables is working at the Lipetsk site to prevent overdue receivables. It unites representatives from various services (internal audit, security, legal, etc.).</p>                        | <p>Novolipetsk overdue receivables do not exceed 2% of the total receivables over the last two years.</p>                        |

## SOCIAL RISKS

|  |   |   |   |
|--|---|---|---|
| <p><b>ENVIRONMENTAL RISKS</b></p> <p>Environmental risks emerge in the course of construction and operation of our production facilities in cases of a likely adverse impact on the environment.</p> | ● | <p>In order to mitigate environmental risks, the Company performs regular monitoring of air emissions and effluents. The overall environmental impact is further reduced through commissioning of advanced environmentally friendly technologies and upgrading of existing equipment.</p> <p>NLMK Group businesses carry third-party liability insurance against accidents while operating hazardous production facilities.</p> | <p>The European Bank for Reconstruction &amp; Development (EBRD) has awarded NLMK a prize for its achievements in the area of environmental and social improvement. The prize for "Excellence in Sustainable Energy and Climate Change" was awarded by an independent panel of judges.</p> <p>Our recycling rate at Novolipetsk exceeds 100%. There is zero effluent discharge at the Lipetsk site.</p> |
| <p><b>PERSONNEL RISKS</b></p> <p>Personnel risks for the Company may emerge in the form of undesirable developments in employment and the social sector.</p>   | ● | <p>In order to address personnel risks, the Company has developed a set of corporate personnel management standards regulating hiring and dismissal, training and professional skills assessment processes, staff awards, engagement of young employees, and the implementation of other internal social programmes aimed at improving the health and social welfare of our employees, etc.</p>                                 | <p>Over a half of employees completed professional training programmes in 2011.</p>   |

# PERFORMANCE REVIEW

## IN THIS SECTION



## 50 GROUP SALES

The Group's sales for the year, both domestically and internationally and the outlook looking forward.

## 52 FINANCIAL REVIEW

The Group's financial performance including our debt management, balance sheet and cash flow.

## 57 OPERATING REVIEW

Details on our business segments of NLMK Russia, NLMK Europe and NLMK USA, explaining the divisions and operations that sit under these as well as their operating performance.



## 72 RESEARCH AND DEVELOPMENT

Our innovations and technologies both by product and process that help maintain our leading position in the marketplace.



## 74 CORPORATE RESPONSIBILITY

How we run our business to ensure that our employees work in a safe and healthy workplace and our communities' and the environment's needs are addressed.



**АЛТАЙ-КОКС**  
ОАО «АЛТАЙ-КОКС»

## CREATING VALUE THROUGH INTEGRATION

“Joining NLMK Group pushed Altai-Koks to unleash its production and workforce potential. Personnel training and growth are a key focus for the Company. Qualified and gifted young workers have the opportunity to apply their skill set, contributing to the Company’s steady growth. Novolipetsk sets the tone in HR management for all the businesses of the Group: it has a streamlined and efficient system for recruiting and training personnel. Altai-Koks is following in its footsteps, introducing new professional development programmes, organising new management training, and professional competitions that have become a great tradition, helping us to discover young talent and open new opportunities.”

Roman Nehoroshev, Acting Head Foreman,  
Coal Preparation Plant,  
Altai-Koks Foreman of the Year 2012

# RESPONDING TO MARKET CHANGES SWIFTLY AND EFFICIENTLY

Our sales strategy is based on the use of efficient sales channels, a proactive search for new sales markets, flexible decision-making and efficient HR management. The Company has the ability to respond swiftly to market changes by optimising its product offering by markets, industries and products, thus diversifying the risks and improving the overall performance.

## GROUP SALES

Despite strong competition brought about by the slump in demand – the result of the weakening global steel market on the back of the global economic instability – NLMK Group’s sales in 2011 grew 9% to 12.8 mt.

Flat products accounted for the bulk of our sales (56%), with the share of HVA products growing 6 percentage points to 35% of the total sales structure driven by the integration of the rolling assets in the key export market that process our semi-finished from the low-cost Russian platform into finished value added products. This growth was supported additionally by increased deliveries of pre-painted steel following the launch of the new pre-painting line at Novolipetsk.

## DOMESTIC SALES

As demand softened in NLMK’s export markets, the Company realigned its sales by increasing deliveries to the domestic market. The Russian steel market in 2011 was less volatile than many of the world markets and, in fact, displayed a positive trend in demand. As a result, NLMK increased its domestic sales by 15% to 4.3 mt. Domestic sales increased to 33% of our total sales, while 8.6 mt of steel products were exported (+7% y-o-y).

NLMK has always been among the key high-quality HVA steel suppliers to the domestic market and HVA sales now account for around 50% of our domestic sales. In 2011, HVA sales grew 15% to 2.0 mt. This increase was mostly driven by the launch of the new pre-painting line at Novolipetsk, which enabled the Group’s share of the domestic pre-painted steel market to rise to 26% (21% in 2010). In addition in 2011, NLMK held 21% of the Russian cold-rolled steel market, 19% of the galvanised steel market, and 63% of the electrical steel market.

Recovery processes in the Russian economy mobilised investment activity in the construction sector and drove domestic consumption of long steel, including metalware, in 2011. Last year, NLMK’s long steel and metalware sales grew 14% against 2010. An EAF transformer failure at NSMMZ in July 2011 impacted negatively upon the growth in long steel sales. But we managed to compensate for this through the purchase of third party billets and thus maintain stability in sales.

In 2011 NLMK’s share of the domestic rebar market exceeded 17%. Our share of the metalware market was 20%, in line with 2010.

The biggest share of NLMK’s 2011 domestic sales went to steel service centres and steel processing

businesses (59%) and to the construction sector (21%). Automotive and pipe & tube manufacturing accounted for 4.6% each, machine building and steel service centres for 2.5% each, electric engineering and instrument making 2.0% each, and white goods 1.7%.

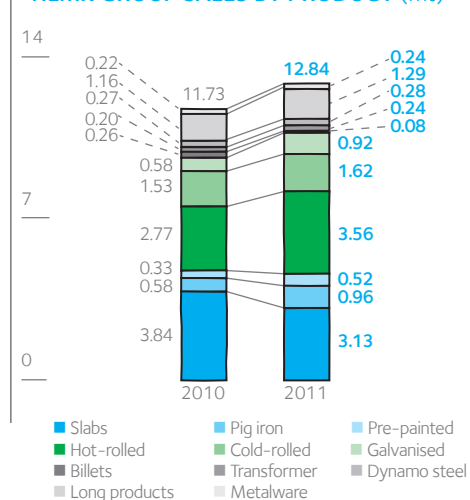
The Central district continued to dominate our domestic sales geography with 55%. The Volga and North Caucasus districts were also among the largest with 11.5% and 9.4%, respectively.

## EXPORT SALES

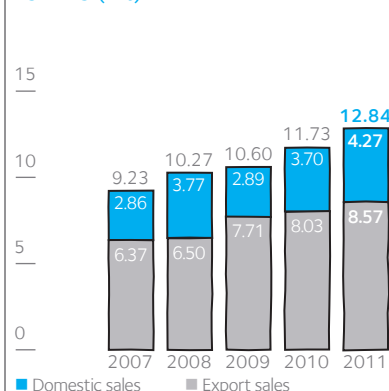
In 2011, external sales of NLMK Group reached 8.6 mt (+7% y-o-y). HVA products accounted for 29% of our international sales, hot-rolled steel for 31% and cold-rolled steel for 10%. Although slabs have the biggest share in NLMK Group’s export sales, their share in total exports decreased 12 p.p. to 36%. A significant proportion of the slab production (around 1.4 mt for the consolidation period) manufactured at our main production site in Lipetsk was processed into HVA products at our captive rolling mills in Europe.

By consolidating the European and the USA assets within the Group, we were able to expand our presence in niche markets. NLMK’s share in the European plates market in 2011 was 7%.

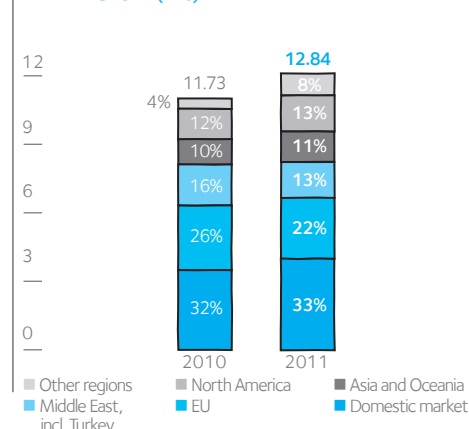
NLMK GROUP SALES BY PRODUCT (mt)



NLMK GROUP STEEL PRODUCTS SALES (mt)



NLMK GROUP SALES STRUCTURE BY REGION (mt)



NLMK Group grew its transformer steel sales to the global market, bringing its share to 8%.

Steel products are supplied through our own export trading companies that ensure efficient management of the sales process and the ability to redirect commodity flows depending upon each market situation.



**Acquisition of National Laminations: for a stronger presence in the Indian market**

In October 2011, NLMK, one of the world's leading transformer steel manufacturers, acquired the National Laminations group, an electrical steel service centre in India.

The Group has processing and warehousing capacities of 16,000 t/y and 15,000 t, respectively, located 200 km from Mumbai. It also has warehousing capacities of 40,000 t located 20 km from Mumbai, in the close proximity to the port that facilitates delivery of imported NLMK material.

The location of the Company's sites not only provides access to customers based in Western India, who represent a significant share of total national transformer steel consumption, but also significantly enhances pan-India distribution capability by reducing delivery lead-time.

The Company supplies processed materials to a wide range of customers, including local and international transformer producers.

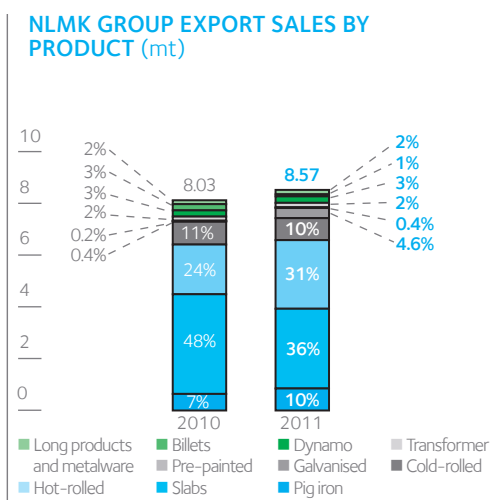
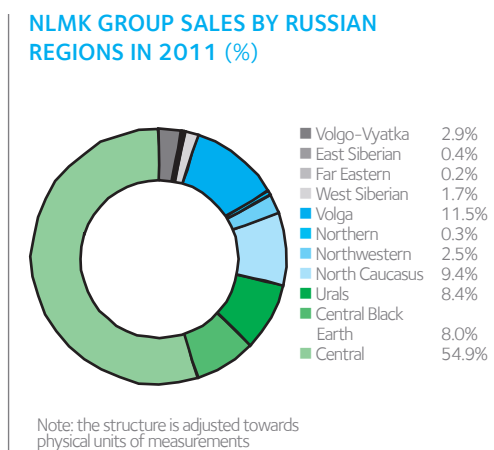
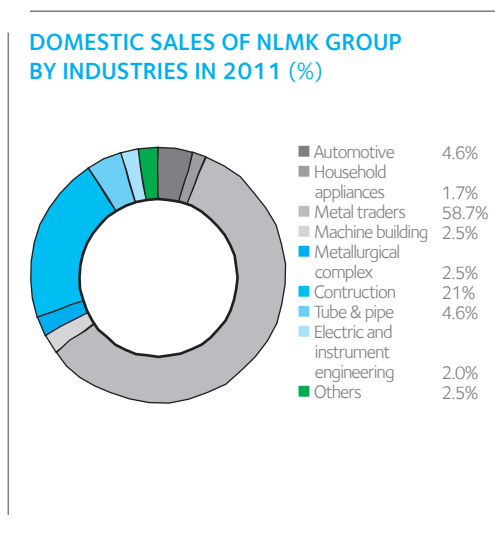
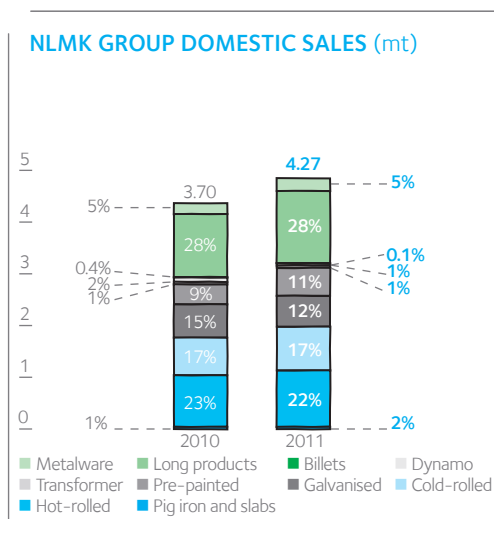
The EU was our key export market last year. At the same time, high economic instability and the softening of demand for steel brought the EU market share down to 33% in 2011 from 38% in 2010. NLMK redirected its flows to the more stable and attractive markets, including North America, Asia and Oceania.

**OUTLOOK**

**Flat steel**

Global steel consumption in 2012 will be driven largely by the state of the global and national economies and their industrial production levels. A slowdown in China and the USA, and recession in Europe could limit the growth of global demand for steel, thus triggering competition in the export markets followed by an increase in price volatility.

Given these market conditions the NLMK Group will continue to leverage on its competitive advantages of low cost production and direct access to the final customers in its key markets through its captive international rolling facilities. We believe that this year our sales will further grow by almost a third as compared to the last year. The Russian economy may maintain stable growth rates in case the

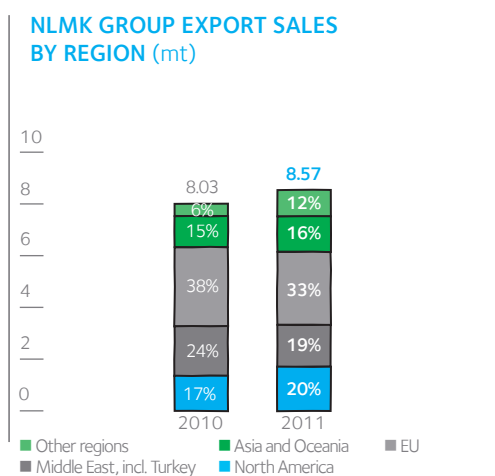


macroeconomic situation in the global markets stabilises, commodity prices remain at elevated levels and the previously announced construction and infrastructure projects in Russia are implemented. Apparent consumption of finished steel in Russia in 2012 could grow by 4–6% y-o-y, flat steel consumption could grow by 4–5%, supported mainly by construction/infrastructure and the tube and pipe industry, as well as automotive and railway sectors. If this scenario materialises, NLMK Group could grow its domestic sales by 15–20%.

**Long steel**

In 2012 the share of government expenditures in the construction sector is expected to shrink as the post-crisis recovery of the Russian economy nears completion. The long steel market could face a slowdown in consumption growth rates. However, the deferred demand for residential and commercial construction could provide a strong support for the domestic long steel consumption.

In 2012, NLMK Group plans to grow its long product and metalware sales to the Russian market by 20%, mainly due to the ramp up at its previously idled electric arc furnace at NLMK Russia Long.



# RETAINING COST LEADERSHIP THROUGH VERTICAL INTEGRATION

In the challenging environment of 2011, NLMK was able to retain its cost leadership among global steelmakers by relying on its vertical integration and enhancing production efficiency at its core plants.



**Galina Aglyamova**

Vice-President, Finance.

Ms Aglyamova was NLMK's Deputy General Director for Economics and Finance from 2005 to 2006, and, from 2000 to 2005, Director for Economics and Finance. She joined NLMK as a planning economist in 1985.

Ms Aglyamova graduated from the Moscow Institute of Steel and Alloys. Ph.D., Ec. Honorary economist of Russia.

## 2011 HIGHLIGHTS

2011 proved to be a challenging year for the steel industry: unstable demand and the significant proportion of unutilised high-cost steelmaking capacity globally put heavy pressure on steel prices. At the same time, energy and raw materials prices continued to rise. In H2, deteriorating macroeconomic conditions led to a slump in steel demand and prices, damaging the sector's margins.

**"NLMK has investment grade credit ratings from all three leading rating agencies. We confirm our commitment to maintaining our investment profile."**

Galina Aglyamova  
Vice-President, Finance

In this challenging environment, NLMK was able to retain its cost leadership among global steelmakers by relying on its vertical integration and enhancing production efficiency at its core plants. The year proved to be an important milestone for the Company: we increased the steelmaking capacity at our main and most efficient production site by over a third, while at the same time, by acquiring rolling mills in Europe and the USA, we have almost doubled our slab processing capacities in our key markets. These developments were the main factors driving our financial performance.

## DEBT MANAGEMENT

As at December 31, 2011, the total debt of the Group stood at US\$4,380 million (with short-term loans accounting for 30%). The key factor behind this significant debt growth was the consolidation of circa US\$1 billion of external debt following the acquisition of the Steel Invest and Finance rolling mills. The bulk of the consolidated borrowed funds (circa US\$780 million) will go towards financing NLMK Europe's and NLMK USA's working capital.

In November 2011, NLMK launched a bond issue with a total value of RUB10 billion and a maturity period of 3 years. The coupon rate is set at 8.95% p.a. In December, NLMK launched two more bond issues series BO-02 and BO-03 with a total value of RUB10 billion of 3-years maturity. Proceeds from the placement of bonds will be used to refinance the Company's short-term debt, as well as for other corporate purposes.

As at the 2011 year end, a substantial part of the short-term debt is represented by the 3-year RUB bonded loans issued at the end of 2009/beginning of 2010, and the US\$1.6 billion 5-year PXF loan balance attracted in 2008 with an interest rate LIBOR + 1.2%.

As at the end of 2011, the Net debt/12M EBITDA ratio is 1.47.

**+40%**  
growth in consolidated  
revenue

**28%**  
dividend payout ratio\*

**CREDIT RATINGS**

S&P, Moody's and Fitch, the international rating agencies, have noted the high level of NLMK's asset diversification and efficient vertical integration, both upstream and downstream. NLMK has investment grade credit ratings with a stable outlook from all three rating agencies. In March 2012, S&P confirmed NLMK's investment rating with a stable outlook.

**DIVIDENDS**

NLMK paid interim dividends for H1 2011 on ordinary issued shares to the amount of RUB1.40 per ordinary share. The total amount of interim dividends is US\$264 million or circa 30% of the Company's net profit for 6M 2011.

**CONSOLIDATED FINANCIAL RESULTS**

**Revenue**

NLMK Group's 12M 2011 consolidated revenue totalled US\$11,729 million (+40%), the growth being attributable to the increase in sales (+9% y-o-y), primarily for HVA products (+30% y-o-y), as well as higher annual average sales prices (+25%).

**Production costs**

Production costs in 2011 (excluding depreciation and amortisation) grew 58% year-on-year to US\$7,780 million. This was the direct result of higher production volumes and sales, a significant increase in the prices of raw materials and higher tariffs for energy and for the services of natural monopolies. Consolidation of foreign rolling mills that rely partially on slabs purchased from third parties served as an additional factor.

In 2011, the slab production cost at the Lipetsk site was US\$396/t (+24% y-o-y), due mostly to the increase in prices for coking coal (+30% y-o-y), pellets (+35%), and the products and services of natural monopolies (railway services +8%; natural gas +15%; electric energy +9%).

Billet production costs at NLMK Long Products and slab production costs at NLMK Indiana were impacted by higher prices for ferrous scrap, +20-25% in Russia and the US.

**SG&A**

In 2011, SG&A expenses totalled US\$1,694 million, up 47% y-on-y, mostly attributable to an increase in administrative expenses following the consolidation of the international rolling mills (+111%), as well as higher commercial expenses (+37%) as a result of an increase in sales volumes, transportation expenses and a wider sales geography.

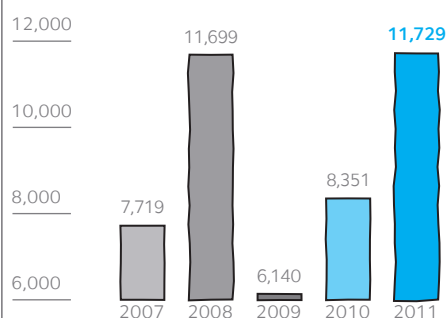
**Operating profit**

2011 operating profit was down 7% y-o-y to US\$1,666 million as a result of a surge in raw material prices and the consolidation of foreign rolling mills with lower levels of profitability. These factors were partially offset by efficient vertical integration and a quality shift in the structure of sales towards HVA products that limited profitability losses.

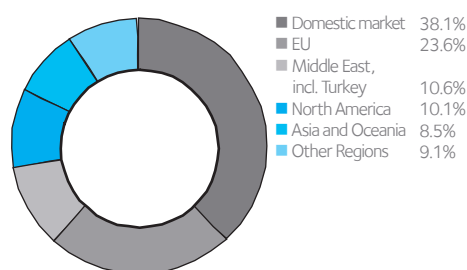
**EBITDA**

2011 EBITDA was US\$2,282 million (-3% y-o-y); EBITDA margin was 19.5%.

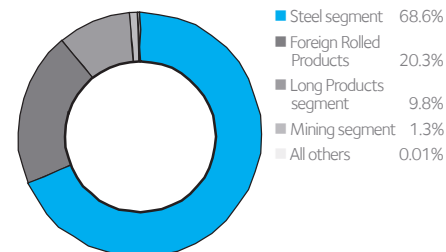
**SALES REVENUE OF NLMK GROUP (US\$ m)**



**NLMK GROUP SALES REVENUE STRUCTURE BY REGION IN 2011 (%)**



**NLMK GROUP REVENUE STRUCTURE BY SEGMENT IN 2011 (%)**



\* 2011 (projected) – the amount of interim dividends is based on the RUB/US\$ exchange rate as at the date of their approval at the Annual Shareholders' Meeting (September 29, 2011), additional dividends are based on the RUB/US\$ exchange rate as at the date of the Board of Directors' recommendations on the amount of dividends (April 10, 2012)

**Interest expenses**

As in 2011, all interest expenses were capitalised and were not reflected in the profit and loss accounts.

All capitalised interest expenses as at the end of 2011 were US\$172 million based on the US\$/RUB FX rate as at December 31, 2011 (-1% as compared to 2010 level based on the US\$/RUB FX rate as at December 31, 2010). The stable level of interest expenses despite the growing gross debt portfolio was mainly attributable to the FX rates change and debt portfolio optimisation.

**Net FX change**

During the twelve months of 2011 net FX gain was US\$19 million (compared to the US\$59 million loss in 2010).

**Net profit**

FY2011 net profit (attributable to the shareholders of NLMK) was US\$1,358 million, an increase of 8% y-o-y. Net profit margin was 11.6% as compared to 15% last year. Net profit growth was due to the additional gain of US\$54 million as a share in the profit from associates. This gain is coming from the share in the profit from NLMK and Duferco Group joint venture companies' results for the first six months of 2011 (before the consolidation of the rolling assets of this JV into NLMK Group) and the 2011 financial results of NLMK's JV with TBEA. Last year, NLMK's share in the loss from the JV companies was US\$107 million.

**CONSOLIDATED BALANCE SHEET**

As of December 31, 2011 the Group's assets totalled US\$17.3 billion, a 24% increase compared to the beginning of the period. The key factors

contributing to this increase were the consolidation of the recently acquired international rolling companies, capital investments, as well as growth of the Group's current assets. Return on assets in 2011 was 8.7% (-0.8 p.p. to 2010).

As of December 31, 2011 the Group's current assets totalled US\$5.5 billion, a 34% increase compared to the beginning of the reporting year. The biggest growth in current assets last year was recorded for accounts receivable (+US\$313 million, or +25% to the beginning of the year) and inventories (+US\$1,248 million, or +79%). The key factor contributing to this increase was the consolidation of the international rolling companies: at the close of the deal, the accounts receivable of the newly acquired assets stood at US\$686 million, and inventories stood at US\$1,169 million. Current assets were additionally impacted by an increase in production output and finished product deliveries, price changes and the strengthening of the US\$ recorded towards the end of the year.

The Group has a significant amount of highly liquid assets with an aggregate of cash and cash equivalents and short-term investments exceeding US\$1 billion as at the end of 2011, mostly represented by short-term bank deposits.

Stockholders' equity at the end of the reporting period amounted to US\$10.1 billion, the change (US\$0.5 billion, +5%) being mostly attributable to the increase in undistributed profits and additional capital. The equity to total assets ratio was 59%, with ROE for 2011 remaining at a stable 13.7%.

Current liabilities of the Group at the end of FY2011 stood at US\$2.9 billion mostly representing

accounts payable (US\$1.6 billion) and the current portion of our financial liabilities (US\$1.3 billion).

LT liabilities as at December 31, 2011 stood at US\$4.2 billion mostly representing the LT portion of our financial liabilities (US\$3.1 billion).

NLMK's debt leverage remains relatively low. In FY2011 the Company's financial debt increased by 67% to US\$4.4 billion following the consolidation of the acquired rolling assets. This increase is also attributable to the rising debt to finance capex projects (export credit agencies (ECA)-backed equipment acquisition). Net debt as at the end of the reporting period was US\$3.4 billion. Net debt to EBITDA ratio was 1.47.

**CASH FLOW**

**Cash flow from operating activities**

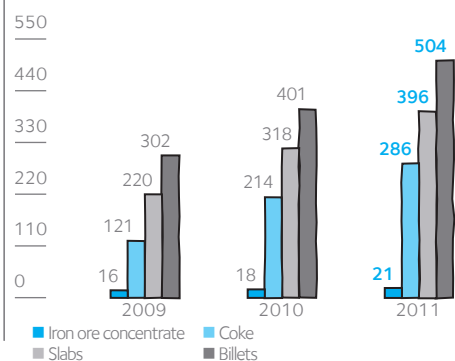
Cash flow from operating activities in FY2011 amounted to US\$1,805 million, +26% y-o-y. This increase was driven largely by improvements in financial performance and working capital optimisation.

A sufficient volume of cash flow from operating activities allows the Company to perform large-scale investments, efficiently using financial resources without significant additional external borrowings.

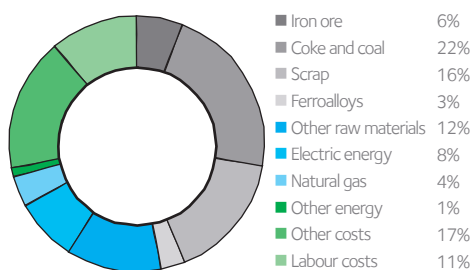
**Cash flow from investment activities**

Cash outflow from investment activities in 12M 2011 amounted to US\$1,869 million (+1%). The bulk of the outflow was directed to capital investments; US\$2,048 million (+40% y-o-y) went towards the purchase and construction of PPE due to the completion of large production projects at the Lipetsk site.

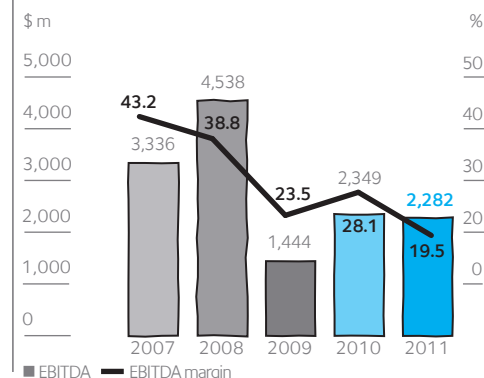
**KEY PRODUCTS CASH COST (US\$/t)**



**NLMK GROUP PRODUCTION COST STRUCTURE IN 2011 (%)**



**EBITDA OF NLMK GROUP**





**Key areas of investment**

Operating efficiency improvements are the key focus of our investments (exceeding US\$7 billion over the last 10 years). These went towards upgrading and developing the Group's most efficient assets located in Russia. The latter will continue to remain the main growth drivers in the future.

When selecting which segment to develop, we make a thorough assessment of the needs and potential of the market and its ability to consume the volumes we are prepared to offer.

In 2011 we continued to implement a number of investment projects. Key areas of investment included the expansion of steelmaking capacities, upstream development, product quality improvements, expansion of rolling operations and operating efficiency growth at all stages of the value chain.

Investments totalled around US\$2 billion.

In 2011, NLMK made placements of available cash and cash equivalents to the short-term bank deposits. These transactions were reflected in the captions "Purchase of investments and placement of bank deposits" (-US\$524 million) and "Proceeds from sale of investments and loans settled" (US\$718 million).

**Cash flow from financial activities**

Net cash inflow from financial activities in 12M 2011 totalled US\$48 million. These activities were determined largely by three factors: US\$284 million in net credits and loans; US\$516 million in dividends; and a cash inflow from the NTK divestment (US\$313 million).

Cash and cash equivalents as at the end of 2011 stood at US\$797 million (+7% y-o-y). Inclusive of short-term financial investments, the Company's highly liquid assets exceed US\$1 billion.

**STEEL SEGMENT**

| US\$ million                           | 2011         | 2010  | Change,% |
|--|--------------|-------|----------|
| Revenue from external customers        | <b>8,043</b> | 6,703 | +20%     |
| Revenue from intersegmental operations | <b>985</b>   | 351   | +181%    |
| Gross profit                           | <b>2,186</b> | 2,146 | +2%      |
| Operating profit                       | <b>1,075</b> | 1,317 | -18%     |
| Profit after income tax                | <b>1,160</b> | 1,466 | -21%     |
| Capex                                  | <b>1,330</b> | 1,064 | +25%     |

The Group's financial performance is defined largely by the performance of the Steel segment, which comprises Novolipetsk (Lipetsk site), VIZ-Stal (a producer of electrical steel), trading companies Novexco Limited and Novex Trading S.A., Altai-Koks (Russia's largest non-integrated coke manufacturer; previously formed a separate segment), as well as a number of service companies. In the 12M 2011 results, NLMK Indiana and NLMK DanSteel, previously part of the Steel segment, were included into the Foreign Rolled Products segment.

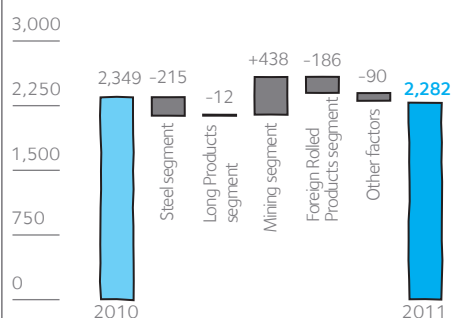
Revenue in 2011 from external customers amounted to US\$8,043 million (+20% to 2010). The increase was attributable to higher sales volumes and average prices for products.

Slab supplies to foreign rolling mills (formed into a separate segment) lead to the substantial (2.8 times) annual intersegmental revenue growth.

Operating profit for 2011 amounted to US\$1,075 million (-18% y-o-y). The profit reduction is associated with a substantial increase in raw material prices, energy costs and the commercial expenses of the Segment.

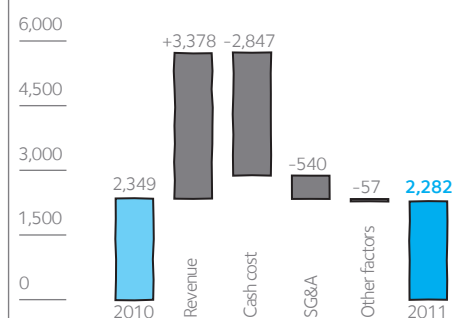
The completion and ongoing execution of several large investment projects during 2011 resulted in a higher level of capital expenditure that totalled US\$1,330 million, +25% year-on-year.

**CHANGE OF NLMK GROUP EBITDA BY SEGMENTS IN 2011\* (US\$ m)**

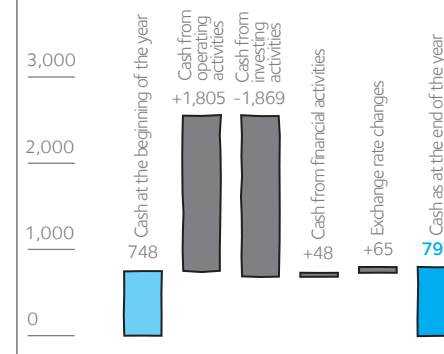


\* EBITDA by segments is calculated as operating profit + depreciation and amortisation

**NLMK GROUP EBITDA CHANGE IN 2011 (US\$ m)**



**NLMK GROUP FREE CASH FLOW IN 2011 (US\$ m)**



**LONG PRODUCTS SEGMENT**

| US\$ million                           | 2011         | 2010 | Change, % |
|--|--------------|------|-----------|
| Revenue from external customers        | <b>1,154</b> | 865  | +33%      |
| Revenue from intersegmental operations | <b>640</b>   | 512  | +25%      |
| Gross profit                           | <b>208</b>   | 209  | 0%        |
| Operating profit                       | <b>-55</b>   | -28  | +97%      |
| Profit after income tax                | <b>-317</b>  | -245 | +30%      |
| Capex                                  | <b>391</b>   | 254  | +54%      |

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

The 12M revenue from external customers amounted to US\$1,154 million (+33% year-on-year). This increase is attributable to higher sales volumes and prices. The intersegmental turnover gained 25% as a result of the growing prices and volumes of scrap sold to the Group's companies. The operating loss of US\$55 million was the result of pressure from the surging scrap prices and electricity tariffs.

The loss after income tax includes interest expenses from intercompany loans provided by the Parent company.

Annual capital expenditures amounted to US\$391 million, +54% year-on-year. The growing investments are associated with the continued construction of the Kaluga Mini Mill.

**MINING SEGMENT**

| US\$ million                           | 2011         | 2010 | Change, % |
|--|--------------|------|-----------|
| Revenue from external customers        | <b>149</b>   | 81   | +83%      |
| Revenue from intersegmental operations | <b>1,291</b> | 831  | +55%      |
| Gross profit                           | <b>1,075</b> | 604  | +78%      |
| Operating profit                       | <b>992</b>   | 545  | +82%      |
| Profit after income tax                | <b>841</b>   | 428  | +96%      |
| Capex                                  | <b>220</b>   | 126  | +74%      |

NLMK's Mining segment comprises Stoilensky, Dolomit and Stagdok. These companies mainly supply raw materials to NLMK's production facilities in Lipetsk but they also sell part of their products outside the Group.

Higher sales prices and volumes, together with constant control over production costs, resulted in improved financial performance. The annual revenue from external customers increased by 83% while intersegmental revenue grew by 55%. This resulted in a higher operating profit (1.8 times y-o-y) and an operating margin of 69%.

Total annual capital expenditures for 2011 amounted to US\$220 million, a 74% growth to 2010. Higher y-o-y investments were related to the launch of beneficiation facilities and the start of the construction of the Pelletising Plant at Stoilensky.

**FOREIGN ROLLED PRODUCTS SEGMENT**

| US\$ million                           | 2011         | 2010 | Change |
|--|--------------|------|--------|
| Revenue from external customers        | <b>2,382</b> | 700  | x3.4   |
| Revenue from intersegmental operations | <b>3</b>     | 0    |        |
| Gross profit                           | <b>-61</b>   | 8    |        |
| Operating profit                       | <b>-305</b>  | -31  | x9.8   |
| Profit after income tax                | <b>-327</b>  | -50  | x6.6   |
| Capex                                  | <b>104</b>   | 15   | x6.8   |

The Foreign Rolled Products segment comprises steelmaking companies located outside Russia, including the rolling mills in Europe and the USA that became part of the Group commencing July 2011. These assets include NLMK Clabecq (Belgium) and NLMK Verona (Italy), both thick plates manufacturers, and NLMK La Louvière (Belgium), NLMK Coating (France), NLMK Strasbourg (France), NLMK Pennsylvania (USA), Sharon Coating (USA), producers of flat steel products. This segment also includes NLMK Indiana and NLMK DanSteel, previously part of the Steel segment.

Annual sales revenue from external customers was US\$2,382 million, up by 3.4 times compared to 2010. Including the performance of the newly acquired Steel Invest and Finance (SIF) rolling mills into the reporting period results was the key growth factor.

Due to the record low level of economic activity in Europe in H2 and a significant deterioration in the market, financial results of the segment were well below their historical performance. The 2011 operating loss of the segment totalled US\$305 million. In H1 2011, the operating profit of SIF rolling mills consolidated as from July 1, 2011, amounted to US\$95 million. With these results considered, the operating loss in 2011 could have amounted to US\$188 million, with an EBITDA of circa -US\$62 million and an EBITDA margin of circa 0%.

The total annual capital expenditures of the segment amounted to US\$104 million. The amount was mainly directed to the new NLMK Clabecq Quenching and Tempering Line and to the upgrade of NLMK DanSteel's rolling equipment.

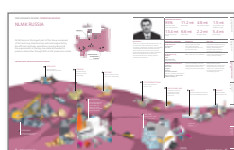
# IMPROVED OPERATIONAL PERFORMANCE

Despite the instability caused by the economic slowdown, the Company managed to achieve a high level of operating performance. This was attained by the adherence to a strategy of balanced growth, efficient operations, and a continuing large-scale capex programme, all aimed at supporting a flexible sales strategy.

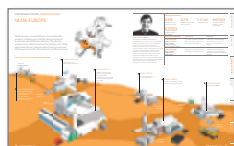
## CONSOLIDATED HIGHLIGHTS

The increase in steel production to a record level of 12.0 mt (+4%) was mainly associated with the commissioning of the new blast furnace (#7) and the associated basic oxygen plant at Novolipetsk, as well as higher utilisation rates at the international steelmaking plants.

A decrease in slab output was offset by the increased production of flat products, including HVA products, where the share of the total production grew from 30% in 2010 to 35% in 2011. This shift towards a bigger proportion of HVA products was driven primarily by the consolidation of European and North American assets as part of the Company's overall strategy. Total steel product output increased by 12% to 13.1 mt.



58 FOR MORE INFORMATION ON NLMK RUSSIA



64 FOR MORE INFORMATION ON NLMK EUROPE



68 FOR MORE INFORMATION ON NLMK USA

## CONSOLIDATED PRODUCTION RESULTS\*

| '000 t                              | 2010          | 2011          | Change       |             |
|-------------------------------------|---------------|---------------|--------------|-------------|
|                                     |               |               | +/-          | %           |
| <b>Pig iron</b>                     | <b>9,265</b>  | <b>9,793</b>  | <b>528</b>   | <b>6%</b>   |
| <b>Steel</b>                        | <b>11,547</b> | <b>11,968</b> | <b>422</b>   | <b>4%</b>   |
| Novolipetsk                         | 9,288         | 9,760         | 472          | 5%          |
| NLMK Russia Long                    | 1,701         | 1,471         | -230         | -14%        |
| NLMK Europe Strip                   |               | 127           | 127          |             |
| NLMK USA                            | 558           | 610           | 53           | 9%          |
| <b>Commercial pig iron</b>          | <b>649</b>    | <b>929</b>    | <b>280</b>   | <b>43%</b>  |
| <b>Semi-finished steel products</b> | <b>3,861</b>  | <b>3,321</b>  | <b>-540</b>  | <b>-14%</b> |
| Slabs                               | 3,614         | 3,251         | -363         | -10%        |
| Billets                             | 247           | 70            | -177         | -72%        |
| <b>Total rolled products</b>        | <b>7,114</b>  | <b>8,802</b>  | <b>1,687</b> | <b>24%</b>  |
| <b>Flats</b>                        | <b>5,710</b>  | <b>7,256</b>  | <b>1,546</b> | <b>27%</b>  |
| Hot-rolled steel                    | 2,422         | 2,922         | 500          | 21%         |
| Plates                              | 378           | 695           | 317          | 84%         |
| Cold-rolled steel                   | 1,497         | 1,725         | 228          | 15%         |
| Galvanised steel                    | 604           | 880           | 276          | 46%         |
| Pre-painted steel                   | 339           | 523           | 184          | 54%         |
| Transformer steel                   | 195           | 237           | 42           | 21%         |
| Dynamo steel                        | 276           | 275           | -1           | -0%         |
| <b>Long products and metalware</b>  | <b>1,405</b>  | <b>1,545</b>  | <b>141</b>   | <b>10%</b>  |
| Long products                       | 1,184         | 1,307         | 123          | 10%         |
| Metalware                           | 221           | 239           | 18           | 8%          |
| <b>Total steel products</b>         | <b>11,624</b> | <b>13,052</b> | <b>1,428</b> | <b>12%</b>  |

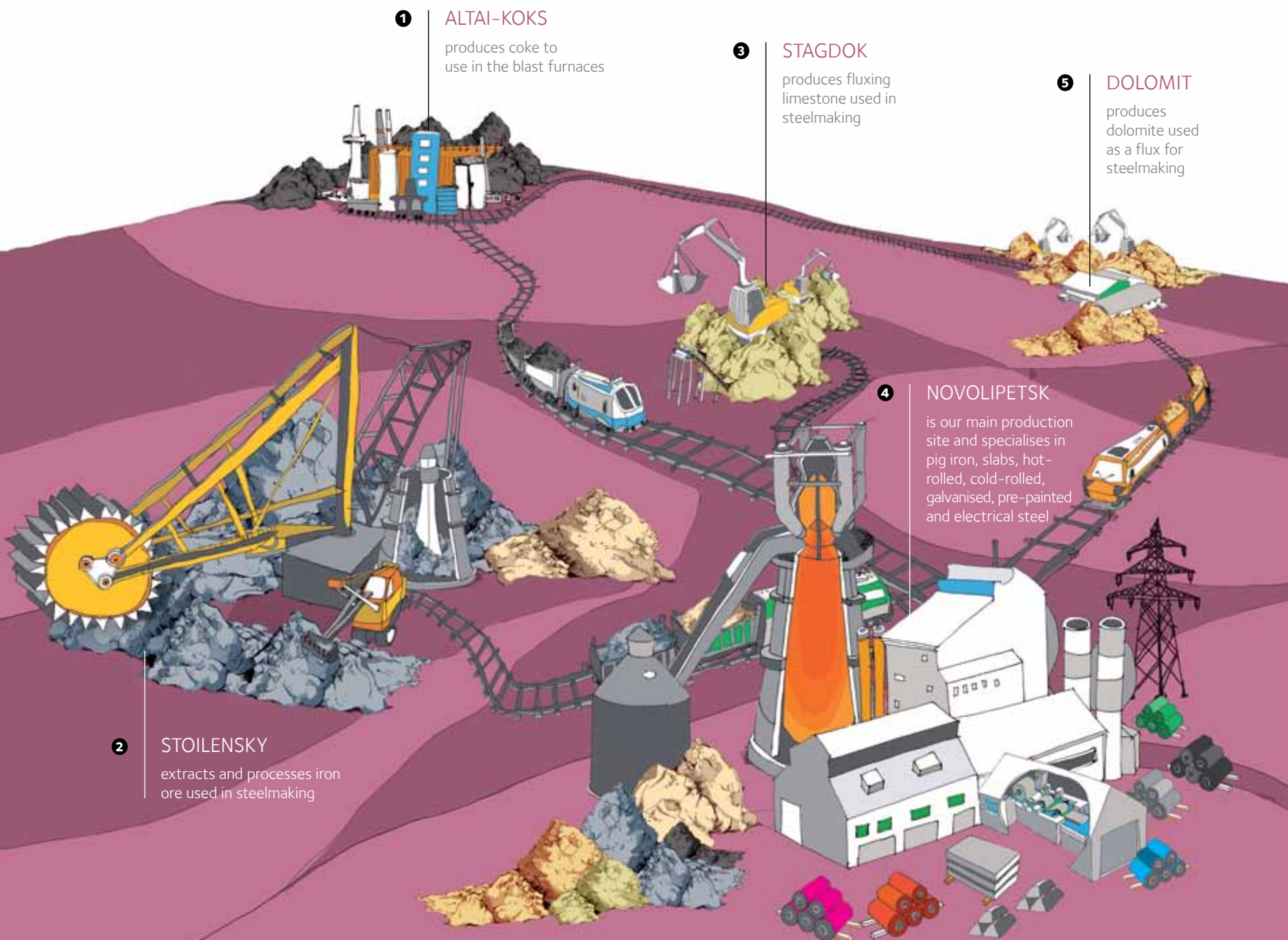
\* The Group's 2011 consolidated production results include the operating performance of the newly acquired international assets starting from their consolidation in July 2011

# NLMK RUSSIA

NLMK Russia is the largest part of the Group, comprising Flat and Long Steel business units and supported by the efficient upstream operations covering almost all the requirements in the key raw materials needed to produce steel either through BOF or EAF production routes.



## CREATING VALUE THROUGH INTEGRATION IN RUSSIA





**Igor Anisimov**

Senior Vice-President, General Director. Ph.D., Ec.  
Mr Anisimov started his career with NLMK in 1995 as an engineer. He served as Vice-President, Technical Upgrade and Development between 2007 and 2010. At the end of 2010, he was appointed General Director of NLMK. Graduated from the Karaganda State University and the All-Russian Distance-Learning Institute of Finance and Economics.

**OPERATING HIGHLIGHTS**

**93%**

Utilisation rate for crude steel production

**11.2 mt**

Steel output

**4.8 mt**

Flat products output

**1.5 mt**

Long products and metalware output

**13.4 mt**

Iron ore concentrate output

**6.6 mt**

Coke output

**2.2 mt**

Scrap processed

**5.4 mt**

Fluxes output

**OPERATING COMPANIES**

**NLMK Russia Flat**  
**Novolipetsk**  
**VIZ-Stal**

**PRODUCTS**

Pig iron, slabs, hot-rolled, cold-rolled, galvanised, pre-painted, transformer and dynamo steel

**END USES**

Construction and infrastructure, auto manufacturing, machine building, shipbuilding and manufacturing of electrical machinery and equipment

**NLMK Russia Long**  
**NSMMZ**  
**UZPS**

Kaluga Mini Mill  
(under construction)

Billets, rebar, wire rod, metalware

Construction and infrastructure sectors, machine building

**NLMK Russia Raw Materials**

**Stoilensky**  
**Altai-Koks**  
**Stagdok**  
**Dolomit**

**Vtorchermet NLMK**

Licences to develop coal deposits:

**Zhernovskoye-1, Zhernovski**  
**Gluboki, Usinsky-3**

Iron ore concentrate, sinter ore, coke, chemical products, dolomite, fluxing limestone, metal scrap, coking coal (under development)

NLMK Group and other steelmakers, non-ferrous metal and petrochemical companies in Russia, CIS, Europe and Asia, as well as construction and road-building sectors

**6** **VTORCHERMET NLMK**

collects and processes ferrous scrap

**8** **KALUGA MINI MILL**

will produce steel and long products (rebar, metalware) starting from 2012

**9** **UZPS**

produces metalware from wire rod manufactured by NSMMZ

**10** **NSMMZ**

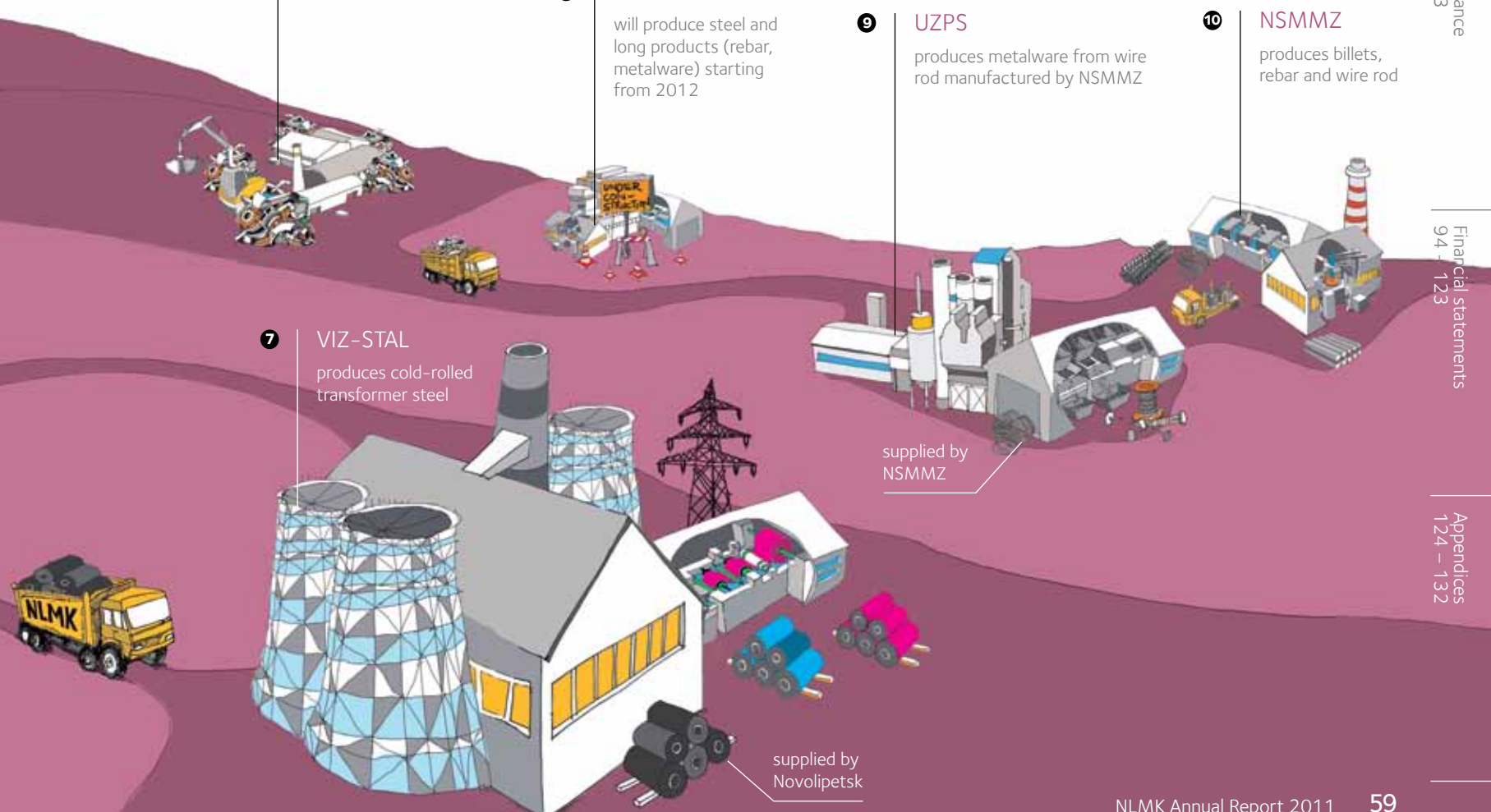
produces billets, rebar and wire rod

**7** **VIZ-STAL**

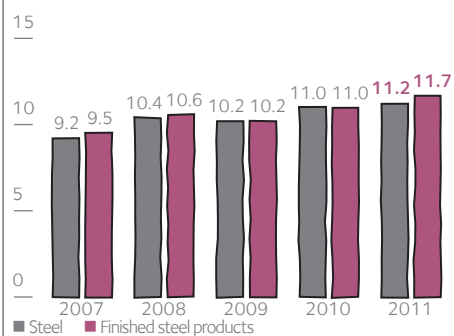
produces cold-rolled transformer steel

supplied by NSMMZ

supplied by Novolipetsk



**NLMK RUSSIA STEEL AND FINISHED PRODUCTS OUTPUT (mt)**



Favourable geography, close proximity of our key Russian assets to each other, and high operating efficiency allow us to fully capitalise on the benefits of vertical integration and support the Company's global cost leadership. Novolipetsk, NLMK Group's key production site located in Lipetsk, is one of the leading producers of steel and flat products in Russia. Another Group rolling mill, VIZ-Stal, is located in Yekaterinburg. Together these two plants produce 100% of the transformer steel in Russia and also play a major role in this key sector on a global scale. NLMK Russia Long comprises operating capacities NSMMZ and UZPS, as well as the Kaluga Mini Mill (KNPEMZ) currently under construction.

Our mining assets, comprising Altai-Koks, Stoilensky, Dolomit and Stagdok, supply key raw materials to the Group's main production site at Novolipetsk, while scrap is supplied to NLMK Russia by captive scrap collection assets that cover 80% of the Group's ferrous scrap needs.

**NLMK RUSSIA FLAT**

**NOVOLIPETSK**

Novolipetsk is an integrated business with an extensive product offering, ranging from standard products, such as slabs and hot-rolled steel, through value added steels, i.e. cold-rolled, galvanised and pre-painted steels, to unique niche products, such as electrical steel. Our key consumers include the construction industry, automobile manufacture, machine building, shipbuilding, and the manufacture of electrical equipment.

**NLMK RUSSIA OPERATING PERFORMANCE**

| NLMK Russia divisions/<br>Assets   | Location                          | 2011<br>output (mt)   | 2010<br>output (mt) | Change (%)    |
|--|-----------------------------------|---|---------------------|---------------|
| <b>NLMK Russia Flat</b>  |                                   |   |                     |               |
| Novolipetsk  | Lipetsk region, Lipetsk           | <b>Steel: 9.8</b><br><b>Flats: 4.8</b>                        | 9.3<br>4.8          | +5%<br>+2%    |
| VIZ-Stal   | Sverdlovsk region, Yekaterinburg  | <b>HVA products: 3.0</b>                                      | 2.9                 | +4%           |
| <b>NLMK Russia Long</b>  |                                   |   |                     |               |
| NSMMZ  | Sverdlovsk region, Yekaterinburg  | <b>Steel: 1.5</b><br><b>Long steel: 1.3</b>                   | 1.7<br>1.2          | -14%<br>+10%  |
| UZPS   | Sverdlovsk region, Yekaterinburg  | <b>HVA products: 0.24</b>                                     | 0.22                | +8%           |
| Kaluga Mini Mill<br>(under construction)                                       | Kaluga region, Kaluga             |   |                     |               |
| <b>NLMK Russia Raw Materials</b>   |                                   |   |                     |               |
| Altai-Koks   | Altai territory                   | <b>Coke 6% moisture: 4.0</b><br><b>(6.6 with Novolipetsk)</b> | 3.6<br>(6.0)        | +13%<br>(+9%) |
| Stoilensky   | Belgorod region                   | <b>Iron ore concentrate: 13.4</b><br><b>Sinter ore: 1.7</b>   | 12.1<br>1.8         | +11%<br>-2%   |
| Stagdok  | Lipetsk region                    | <b>Limestone: 3.3</b>   | 3.3                 | -1%           |
| Dolomit  | Lipetsk region                    | <b>Dolomite: 2.1</b>  | 1.5                 | +39%          |
| Vtorchermet NLMK   |                                   | <b>Scrap processing: 2.2</b>                                  | 1.9                 | +12%          |
| <b>Licences to develop coal deposits:</b>                                      |                                   |   |                     |               |
| Zhernovskoye-1 (GZh, Zh),<br>Zhernovskiy Glubokiy (Zh),<br>Usinsky-3 (2Zh, Zh) | Kemerovo region,<br>Komi republic |   |                     |               |

The Company is able to achieve high operating performance, ensuring balanced growth, through its adherence to a policy of investing in advanced new technologies and by continuing to upgrade existing equipment. This policy also consolidates Novolipetsk's role as a key player in the global steel market.

Large-scale capex projects, implemented as part of our Technical Upgrade Programme, ensure that the plant is technologically on the cutting edge. In 2011 we launched a new Blast Furnace #7 and a new BOF, increasing our annual crude steel capacity to 12.4 mt.

Finally, in 2011, Novolipetsk launched its 200,000 t/y Pre-painting Line #3, increasing its pre-painted steel output by 53% to 580,000 t/y.

Novolipetsk products have been certified by leading Russian and international authorities. In 2011, Novolipetsk successfully completed a TÜV SÜD (Germany) certification audit for compliance with the ISO/TS 16949:2009 international standard; this means that the manufacturer is recognised as a potential supplier for the global automotive industry. Novolipetsk also confirmed the compliance of its Quality Management System (QMS) with international standard ISO 9001:2008,

the European Council Directives 97/23/EG Pressure Equipment and Technical Regulations, and 89/106/EEC, and received the right to use the CE mark on steel produced for the construction industry. The European Council Directives allow one to trace the quality of goods entering the European market, and their safety for the customers.

Despite the volatility and unstable demand within the global steel market, leading to consumer slowdown, NLMK's Lipetsk site, through its vertical integration and flexible production programme managed to adapt sufficiently to maintain almost 100% utilisation rates throughout 2011.

In 2011, Novolipetsk produced 9.8 mt of steel (+5% y-o-y) and 10.1 mt of finished steel products (+8%). One of the key drivers for this growth was the beginning of hot testing at the new BF-7 and the launch of the new BOF in the second half of 2011. Flat steel output was in line with 2010. Slab output grew to 4.4 mt (+10% y-o-y), also driven by the commissioning of the new steelmaking capacities. About 1.8 mt went to our European assets for further rolling into value added finished products. Following the launch of the new pre-painting line, the Company's pre-painted steel output increased by a factor of 1.5.

### NOVOLIPETSK OPERATING PERFORMANCE

| '000 tonnes                 |              |               | Change     |           |
|-----------------------------|--------------|---------------|------------|-----------|
|                             | 2010         | 2011          | +/-        | %         |
| Sinter                      | 14,177       | <b>14,507</b> | 330        | 2%        |
| Coke 6% moisture            | 2,476        | <b>2,554</b>  | 78         | 3%        |
| Steel                       | 9,288        | <b>9,760</b>  | 472        | 5%        |
| Pig iron                    | 9,265        | <b>9,793</b>  | 528        | 6%        |
| <b>Finished products:</b>   |              |               |            |           |
| Commercial pig iron         | 649          | <b>929</b>    | 280        | 43%       |
| Slabs                       | 3,981        | <b>4,366</b>  | 385        | 10%       |
| Flat steel                  | 4,782        | <b>4,840</b>  | 58         | 1%        |
| Hot-rolled steel            | 2,027        | <b>1,995</b>  | -31        | -2%       |
| Cold-rolled steel           | 1,497        | <b>1,448</b>  | -49        | -3%       |
| Galvanised steel            | 604          | <b>562</b>    | -42        | -7%       |
| Pre-painted steel           | 339          | <b>494</b>    | 155        | 46%       |
| Transformer steel           | 42           | <b>67</b>     | 25         | 61%       |
| Dynamo steel                | 275          | <b>275</b>    | -1         | -0%       |
| <b>Total steel products</b> | <b>9,412</b> | <b>10,135</b> | <b>724</b> | <b>8%</b> |

#### VIZ-STAL

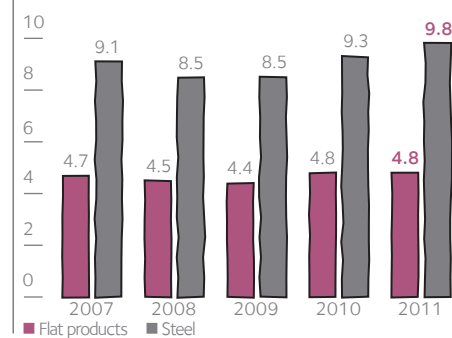
VIZ-Stal is a rolling mill that produces grain oriented (transformer) steel. The plant is equipped with advanced equipment and can manufacture up to 200,000 t/y of transformer steel. VIZ-Stal uses hot-rolled steel supplied by Novolipetsk as substrate for transformer steel production. In 2011, VIZ-Stal produced 171,000 t of transformer steel, +11% y-o-y. Stable production processes and an efficient Quality Management System in line with international standards, including ISO 9001:2008, ensure the quality of VIZ-Stal products.

Despite strong competition in the electrical steel market, powered by the growth in production capacity, especially from China, as well as high price volatility, the Company increased its sales, maintaining a high, 97%, capacity utilisation rate of transformer steel production throughout 2011. Last year, VIZ-Stal transformer steel sales totalled 169,000 t, +10% against 2010, a figure that was made possible by upgrading process equipment and technological innovations to meet customer demand.

### VIZ-STAL OPERATING PERFORMANCE

| '000 t            |      |            | Change |     |
|-------------------|------|------------|--------|-----|
|                   | 2010 | 2011       | +/-    | %   |
| Transformer steel | 154  | <b>171</b> | 17     | 11% |

### STEEL AND FLATS OUTPUT AT NOVOLIPETSK (mt)



### NLMK RUSSIA LONG

This Division of NLMK incorporates the NLMK Long Products businesses, NSMMZ and UZPS, and also will be home to the 1.5 mt/y Electric Arc Furnace-based Mini Mill in the Kaluga region. NLMK Russia Long specialises in the production of long steel and metalware. These plants operate within an integrated production cycle, including collection and processing of ferrous scrap, EAF steelmaking and production of rebar, wire rod and metalware. Being based upon the EAF route, these mills rely on a steady supply of scrap.



VIZ-Stal is a rolling mill that produces grain oriented (transformer) steel.

NSMMZ is supplied by Vtorchermet NLMK, a scrap collecting and processing unit of NLMK Russia Raw Materials Division, and is over 70% self-sufficient in scrap.

The Division produces an extensive range of construction-grade products, including rebar, wire rod and metalware, together with fittings made of various grades of steel. NLMK Russia Long accounts for about 20% of the Russian market in the rebar and low carbon metalware segments, while the construction sector is the Division's key consumer.

#### NSMMZ AND UZPS

The Nizhneserginsky Steel Plant (NSMMZ) is a modern producer of steel and long products, located in the Urals region. NSMMZ operates two EAFs in Revda with a combined capacity of about 2.2 mt/y. Semi-finished products are further rolled into rebar and wire rod at its rolling facilities in Nizhniye Sergi and Berezhovskiy.

The Urals Precision Alloys Factory (UZPS) specialises in the production of value added metalware and is one of Russia's largest metalware manufacturers. NSMMZ supplies re-rolling stock (wire rod) to UZPS.

#### KALUGA MINI MILL (KNPEMZ)

The Kaluga Mini Mill, with a design capacity of up to 1.5 mt/y of crude steel and long products, is under construction. It is scheduled for commissioning in 2012. Located in the Kaluga region, the mini mill will consume mainly ferrous scrap, which is of significant importance to the development of recycling and improvement of the environment in the central parts of Russia.

**36** FOR MORE INFORMATION ON THIS PROJECT

#### Performance

In 2011 the Division demonstrated a resilient performance increasing production of value added grades of steel while the ordinary grades production decreased. These results were achieved despite a serious transformer failure at one of the EAFs at NSMMZ in July 2011. Efficient management efforts and productive cooperation with electric equipment manufacturers allowed us to relaunch the EAF in 6 months, in January 2012. In 2011 NLMK Russia Long businesses produced 1.3 mt of long steel (+10% y-o-y) and 0.2 mt of metalware (+8%). To ensure optimal economic performance and utilisation rates in this context of reduced steel production, we were buying billets off the market.

## NLMK RUSSIA RAW MATERIALS

NLMK Group controls several upstream assets, which enable our main production site at Novolipetsk to be fully self-sufficient in high-quality iron ore concentrate, scrap and fluxing materials.

#### MINING

NLMK's core mining business is Stoilensky, iron ore producer, whereas Stagdok and Dolomit provide fluxing materials to our main production site in Lipetsk. The Company also has licences to develop coking coal deposits at Zhernovskoye-1, Zhernovskiy Gluboki and Usinsky-3, which could improve NLMK's self-sufficiency in the relevant grades of coal once the projects are finalised.

#### Stoilensky

The core business within the mining division is Stoilensky, one of Russia's largest mining companies, specialising in the extraction and processing of iron ore. It is located in the Belgorod region in Central Russia, 350 km from the main production site in Lipetsk, and is developing the Stoilenskoye deposit of the Kursk Magnetic Anomaly, the world's largest iron ore basin. Ore is mined in an open cast mine using modern technology, fully covering Novolipetsk's blast furnaces with low-cost iron ore concentrate and sinter ore.

Stoilensky produces iron ore concentrate, with 66.5% average iron content, and sinter ore, with 52% average iron content, which are used as key raw materials in BOF steelmaking. Stoilensky provides enough iron ore to make NLMK 100% self-sufficient in iron ore concentrate and sinter ore.

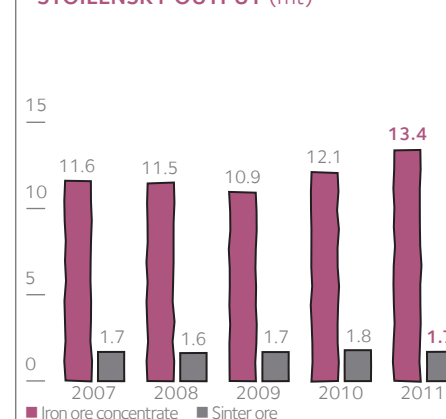
In 2011, production of iron ore concentrate increased by 11% and reached 13.4 mt. This increase in output was driven by the commissioning of an additional beneficiation section in mid-2011. In 2011, Stoilensky's sales grew 8%, of which 89% of iron ore concentrate and 35% of sinter ore were shipped to Novolipetsk. Stoilensky's other consumers in 2011 included steelmakers in Russia, Ukraine, Eastern Europe and China.

Stoilensky continues to implement its project for the expansion of iron ore production, building new beneficiation capacities (+4 mt/y of iron ore concentrate) and a 6 mt/y pelletising plant which will make our main production site fully self-sufficient in high-quality pellets with circa 65% Fe content. We are planning to launch these facilities in 2014.

### NLMK RUSSIA LONG OPERATING PERFORMANCE

| '000 t                      | 2010         | 2011         | Change      |             |
|-----------------------------|--------------|--------------|-------------|-------------|
|                             |              |              | +/-         | %           |
| <b>Steel</b>                | <b>1,701</b> | <b>1,471</b> | <b>-230</b> | <b>-14%</b> |
| <b>Steel product output</b> | <b>1,652</b> | <b>1,616</b> | <b>-36</b>  | <b>-2%</b>  |
| Commercial billet           | 247          | 70           | -177        | -72%        |
| Long products               | 1,184        | 1,307        | 123         | 10%         |
| Metalware                   | 221          | 239          | 18          | 8%          |

### STOILENSKY OUTPUT (mt)



### Stagdok

Stagdok produces fluxing limestone used in steelmaking, as well as in construction, road-building and other materials. Consolidated as part of the Group since 1999, the plant fully meets the demand for fluxing limestone from NLMK Group's steelmaking businesses. Stagdok's production facilities are located within 20 km of NLMK's main production site, Novolipetsk. Output in 2011 stayed in line with 2010 at 3.3 mt. Company sales of commercial products in 2011 increased by 9% over 2010 and reached 3.0 mt, of which 2.5 mt, or 81%, of fluxing limestone was shipped to Novolipetsk.

In the future the Company intends to increase output to meet the planned growth in demand for limestone from Novolipetsk.

### Dolomit

Dolomit produces flux dolomite for steelmaking operations. Consolidated as part of the Group since 1999, the plant fully meets the demand for dolomite from NLMK Group businesses.

In 2011, output grew by 39% compared to 2010. Sales increased to 2.0 mt, of which 47% was shipped to Novolipetsk. This growth in output and sales of Dolomit's main products was driven by increased consumption from other steelmakers (Severstal, Karelsky Okatish).

Dolomit continues to implement its Technical Upgrade and Development Programme, through renovation and reconstruction of installed equipment, to ensure safe and stable operations.

### Licences:

#### Zhernovskoye-1

In 2005, NLMK obtained mineral prospecting and development rights to the Zhernovskoye-1 coal deposit in the Kemerovo region. Project design work for the mining complex of 3.6 mt/y of coking coal concentrate will be completed in 2012.

### Zhernovski Gluboki

The deposit has reserves of high-quality hard coking coal (grade Zh) and is located below the deposit of Zhernovskoye-1. Development of the two plots (Zhernovski Gluboki and Zhernovskoye-1) is expected to be implemented in a single scheme.

Combined coking coal reserves of Zhernovskoye-1 and Zhernovski Gluboki are 263 mt.

### Usinsky-3

The Usinsky Coal Deposit (Usinsky-3) is located in the northern part of the Komi Republic (North-Western Russia). Usinsky-3 reserves exceed 227 mt of high-quality hard coking coal (grades 2Zh, Zh). The operating life of the mine exceeds 40 years assuming a mining complex capacity of about 2.7 mt/y of coking coal concentrate.

Managing risks related to the growth in raw materials and energy prices is an integral part of the Company's strategy to boost long-term effectiveness and sustainability by integrating the production of high-quality raw materials.

**31** FOR MORE INFORMATION ON THESE PROJECTS

### COKE PRODUCTION

Coke is one of the key raw materials for steelmaking. NLMK's 6% moisture coke production facilities are concentrated at Altai-Koks (4.4 mt/y) and at Novolipetsk (2.6 mt/y). These two plants make the NLMK Group more than 100% self-sufficient in coke.

### Altai-Koks

Altai-Koks is Russia's largest non-integrated coke producer, accounting for 13% of gross coke supplies in Russia (excluding intra-company sales). The Company is located in the Altai Territory, in close proximity to the Kuznetsk Coal Basin mining companies, which helps to streamline transportation costs. Key products include coke and chemical by-products: benzene, ammonium sulphate, coal tar pitch, etc.

In 2011, Altai-Koks produced 4.0 mt of coke with 6% moisture content, a 13% increase over 2010. Increased output was driven by the higher demand for coke-chemical products. Coke sales in 2011 totalled 3.8 mt dry weight, of which 2.6 mt (69% of total sales) were shipped to Novolipetsk. Other Altai-Koks external consumers in 2011 included Russian, CIS, European and Asian steelmakers, non-ferrous metal and petrochemical companies.

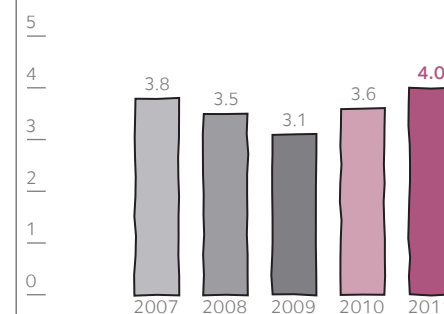
### SCRAP PROCESSING

#### Vtorchermet NLMK

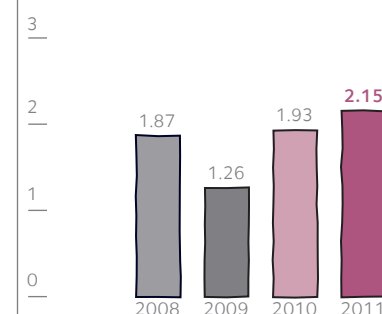
Vtorchermet NLMK is a combination of ferrous scrap collecting and processing businesses. It has a scrap processing capacity of 3.5 mt/y (incl. transit scrap). In 2011 around 95% of the scrap collected by Vtorchermet NLMK was consumed within NLMK Group, by NSMMZ and Novolipetsk.

In 2011 Vtorchermet NLMK collected 3.2 mt of scrap, and processed 2.2 mt, +12% y-o-y.

ALTAI-KOKS PRODUCTION OF 6% MOISTURE COKE (mt)



SCRAP PROCESSING (mt)



### IRON ORE, FLUX AND COKING COAL RESERVES

|                   | Stoilensky    |                     | Stagdok   | Dolomit   | Zhernovskoye-1<br>(incl. Zhernovskoye-1<br>and Zhernovski Gluboki) | Usinsky-3                   |
|-------------------|---------------|---------------------|-----------|-----------|--|-----------------------------|
|                   | Rich iron ore | Magnetic quartzite* | Limestone | Dolomite  | Coking coal grades Zh, GZh   | Coking coal grades 2Zh, KZh |
| Reserves, mt      | 54            | 2,186               | 148       | 382       | 263  | 227**                       |
| Years of reserves | circa 45      | circa 68            | circa 30  | circa 103 | circa 40   | circa 40                    |

\* Within the current pit boundary

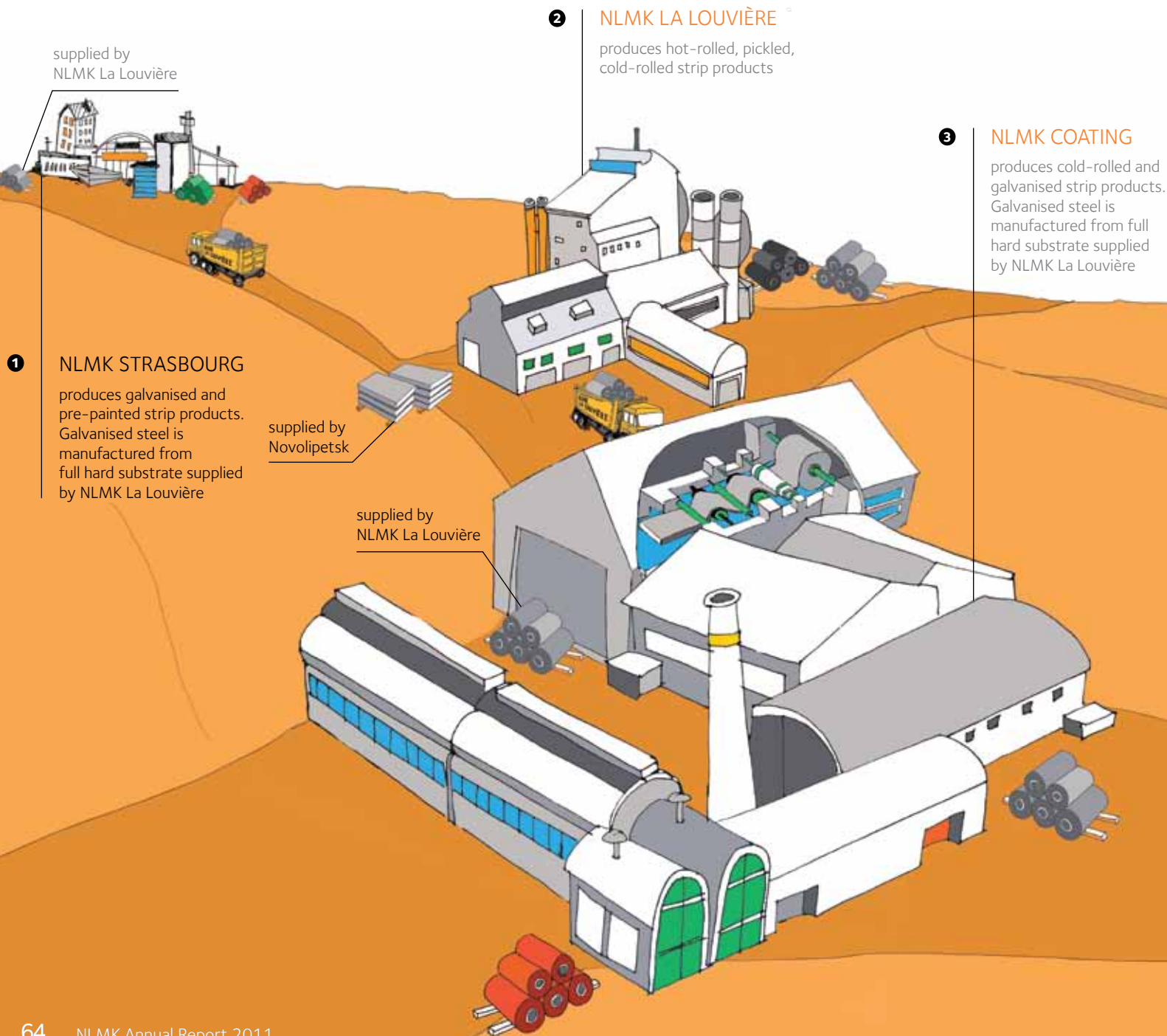
\*\* After follow-up exploration, reserve amounts will be adjusted

# NLMK EUROPE

NLMK Europe is a manufacturer of innovative flat products combining all of NLMK Group's European production and distribution facilities. The division produces hot-rolled (including thick plates), cold-rolled, galvanised and pre-painted products and is comprised of two business units, Strip products and Plate products.



## CREATING VALUE THROUGH INTEGRATION IN EUROPE





**Horacio Esteban Malfatto**

Chief Executive Officer of NLMK Europe.

Mr Malfatto was CEO of the joint venture NLMK-Duferco from 2007 to 2011. From 2004 until 2011 he was CEO of Duferco La Louvière in Belgium and from 2003 until 2006 – CEO of Duferco Coating in France, having previously worked for Duferco Steel Processing in South Africa as a Member of the Board from 2002 till 2005, as General Manager from 1999 to 2002 and Commercial Manager from 1998 to 1999.

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

**OPERATING HIGHLIGHTS**

**56%**

Utilisation rate for flat steel production

**61%**

Utilisation rate for thick plates production

**1.0 mt**

Thick plates output

**€606/t**

Average selling price (EXW) for NLMK Europe Strip

**€709/t**

Average selling price (EXW) for NLMK Europe Plate

**OPERATING COMPANIES**

**NLMK Europe Strip**  
**NLMK La Louvière**  
**NLMK Coating**  
**NLMK Strasbourg**  
**Service centres network**

**NLMK Europe Plate**  
**NLMK DanSteel**  
**NLMK Clabecq**  
**NLMK Verona**

**PRODUCTS**

Hot-rolled, pickled and full hard steel, cold-rolled, galvanized and pre-painted sheet products

Forged ingots, thick plates, incl. quenched and tempered plates

**END USES**

Automotive, machine building, pipe manufacturing, service centres and construction in Europe

Energy, machine building (incl. yellow goods, pipe, shipbuilding, windmills) of European and global markets

**4 NLMK VERONA**

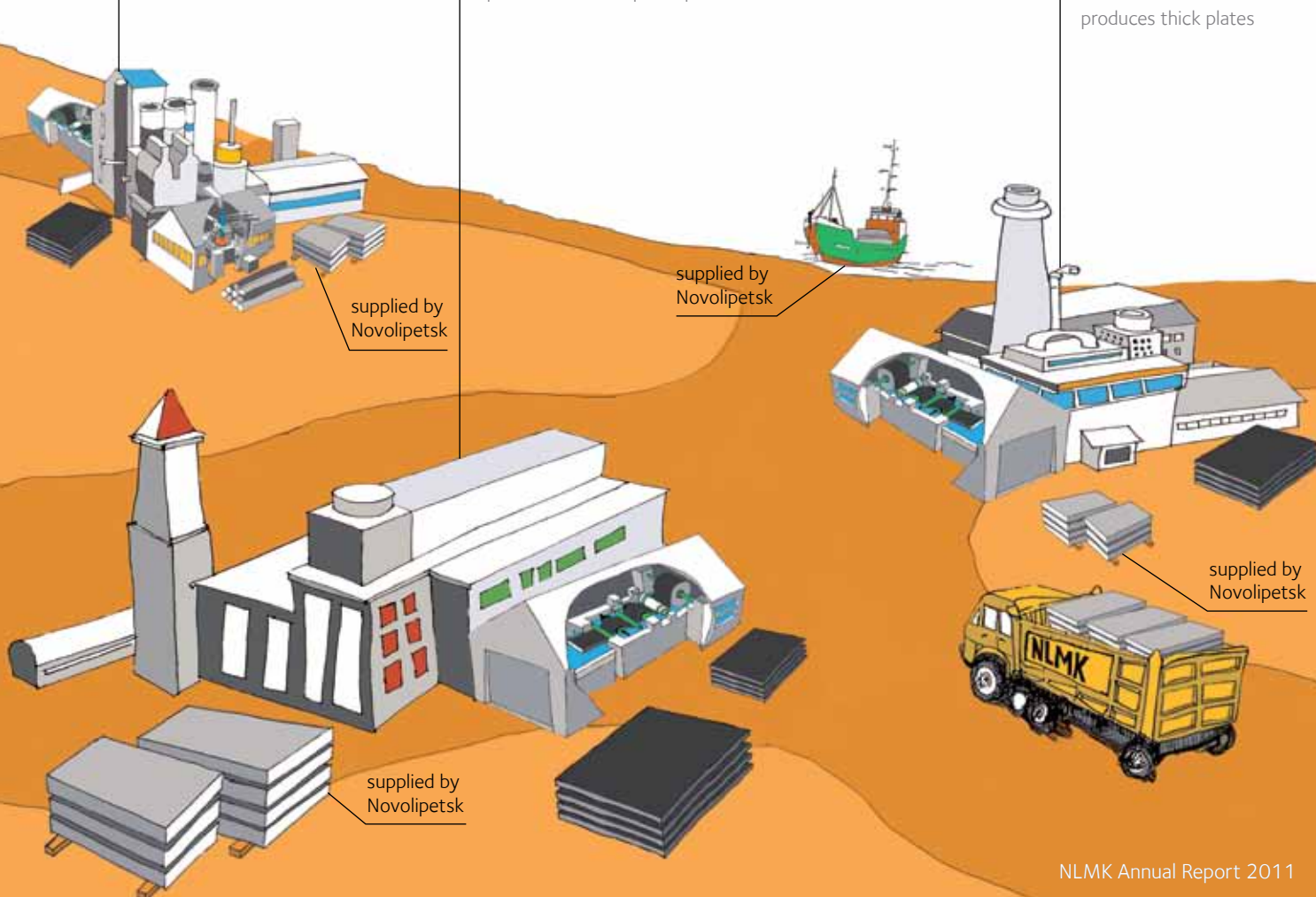
manufactures forged ingots, thick plates

**5 NLMK CLABECQ**

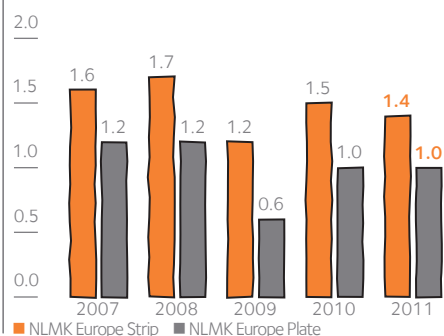
produces thick plates, including quenched and tempered plates

**6 NLMK DANSTEEL**

produces thick plates



**NLMK EUROPE FINISHED PRODUCT OUTPUT\* (mt)**



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

**NLMK EUROPE OPERATING PERFORMANCE**

| NLMK Europe divisions    | Assets           | Location                | 2011 output (mt)                             | 2010 output (mt) | Change (%) |
|--------------------------|------------------|-------------------------|--|------------------|------------|
| <b>NLMK Europe Strip</b> | NLMK La Louvière | Belgium, La Louvière    | <b>Hot-rolled steel: 0.93</b>                | 1.03             | -9%        |
|                          | NLMK Coating     | France, Beautor         | <b>Cold-rolled and full hard steel: 0.09</b> | 0.10             | -2%        |
|                          | NLMK Strasbourg  | France, Strasbourg      | <b>Galvanised steel: 0.30</b>                | 0.26             | +15%       |
|                          | Service centres  |                         | <b>Pre-painted steel: 0.06</b>               | 0.07             | -9%        |
|                          | network          |                         | <b>Total steel products: 1.39</b>            | 1.45             | -4%        |
| <b>NLMK Europe Plate</b> | NLMK DanSteel    | Denmark, Frederiksvaerk | <b>Steel: 0.27</b>                           | 0.23             | +18%       |
|                          | NLMK Clabecq     | Belgium, Ittre          | <b>Forged ingots: 0.06</b>                   | 0.07             | -15%       |
|                          | NLMK Verona      | Italy, Verona           | <b>Plates: 1.03</b>                          | 0.99             | +4%        |
|                          |                  |                         | <b>Total steel products: 1.10</b>            | 1.06             | +3%        |

Since July 1, 2011 NLMK has consolidated the rolling business of Steel Invest and Finance (formerly a joint venture between NLMK and the Duferco Group). As a result, two new divisions were created within the Group – NLMK Europe and NLMK USA, comprising the newly acquired assets, as well as NLMK DanSteel and NLMK Indiana.

NLMK uses a unique industrial model in Europe based on the efficient supply of semi-finished products (slabs) from Russia to European processing facilities for the production of HVA flats, close to key customers. NLMK has successfully implemented this model at NLMK DanSteel, a Danish plate producer, where it has been applied since 2002.

NLMK Europe combines all of NLMK Group's European production and distribution facilities. The division employs around 3,000 people at six production sites specialising in high-quality hot-rolling (including thick plates manufacturing), cold-rolling and coating (galvanising and pre-painting), and a network of steel processing and distribution units in close proximity to the end users.

The Division has a network of service and sales centres located in Belgium and France, focused on meeting the needs of our customers. They cut coils to size and produce metal systems for building shells. Finished products go to machine building and construction companies.

NLMK Europe comprises two business units, NLMK Europe Strip and NLMK Europe Plate.

**NLMK EUROPE STRIP**

NLMK Europe Strip operates on a production model fuelled by efficiently processing slabs supplied primarily by NLMK's Russian operations. In 2011

NLMK delivered around 1.1 mt of slabs to the division. In 2012 slabs supplies from Lipetsk plant are expected to increase by 10-15% y-o-y. Assets are located close to the key consumers of steel products (Germany, France, Benelux), ensuring logistical efficiency and high-quality service for the customers. Automotive, machinery, pipe and tubes and construction sectors are the unit's key customers.

NLMK Europe Strip has three production sites: NLMK La Louvière, NLMK Coating, NLMK Strasbourg, and a network of service centres.

**NLMK LA LOUVIÈRE**

NLMK La Louvière specialises in the production of flat steel and has an annual hot-rolled steel production capacity of 2.4 mt, delivered in part into user markets for hot-rolled steel. The remainder undergoes cold-rolling treatment in the cold-rolling and coating units.

**NLMK COATING**

NLMK Coating is the downstream facility for coated products that manufactures a broad range of cold-rolled uncoated and electrogalvanised steel products. The substrate is supplied by NLMK La Louvière.

**NLMK STRASBOURG**

The manufacturing installations at the NLMK Strasbourg site include a hot dip galvanising and pre-painting line. The substrate is supplied by NLMK La Louvière.

**Quality and Health & Safety**

In 2011 all NLMK Europe Strip companies successfully passed recertification procedures for compliance with ISO 9001 and TS 16949 quality standards. For the second time, NLMK Strasbourg

received an OHSAS (Occupational Health and Safety) award and was certified for compliance with ISO 14001 environmental standards.

**Performance**

After a mild recovery of demand in the European steel market at the beginning of 2011, in H2 the market deteriorated, pressured by the overall economic instability in the region. This resulted in lower operating performance and sales for NLMK Europe Strip. Finished product output contracted 4% to 1.4 mt. At the same time, galvanised steel production increased 15% against 2010, supported by higher demand from the automotive companies, including those located in Germany.

In 2012, demand for steel products in the European market will remain depressed by the debt crisis in the Eurozone. In these difficult forecasted conditions, management efforts will be directed towards cutting fixed costs, working capital optimisation and increasing efficiency, as well as improving the quality of products and customer service.

**NLMK EUROPE PLATE**

NLMK Europe Plate has an annual production capacity of 1.9 mt at three production sites, NLMK Clabecq, NLMK Verona, NLMK DanSteel. Its share of the European plate market is estimated at 7%. The synergies between the three facilities allow NLMK to offer its clients the full scope of products ranging from very thin/narrow plates to very thick/wide plates, as well as a range of tool steels.

**NLMK CLABECQ**

The Company produces a wide range of plates, from structural steels to high value added steels of 3 to 120 mm thickness. The plant is ideally



**New Quenching and Tempering Line – securing the future for NLMK Clabecq**

NLMK Clabecq launched the new Quenching and Tempering Unit. This investment of over €100 million guarantees the sustainability of the NLMK Clabecq plant (Belgium) and supports the NLMK Group's strategy of long-term development and innovation.

The annual capacity of the new line is 250,000 tonnes; this means that one third of the production of NLMK Clabecq will pass through the quenching and tempering.

The new blast furnace and 300 tonne basic oxygen furnace, built earlier at Novolipetsk using the best available technology, will enable NLMK to produce the high-quality slabs needed for the production of these Q&T steels.

located at the hub of a number of major Belgian railway and road routes, just a short distance from the port of Antwerp. This allows the Company to easily dispatch plates to the global marketplace. NLMK Clabecq's production capacity is 0.9 mt/y of plates. Its key consumers are pipe and tube manufacturers and machine building companies.

2011 was a milestone year for two key strategic initiatives of the Company:

- Equipment upgrades to enhance operating and energy efficiency and improve product quality;
- Increased product offering by altering product features and increasing the output of niche plates.

As part of the first initiative, NLMK Clabecq launched two new pusher furnaces, reducing gas consumption by 20% and increasing efficiency.

In October 2011 NLMK Clabecq launched a new 250,000 t/y Quenching and Tempering Line. This project allowed the Company to enter niche markets and to expand its HVA product offering by setting up a process for manufacturing abrasion resistant and high-strength steels, used, for example, in the yellow goods sector. This also mitigates risks associated with price volatility depressing the traditional steel sector.

In 2012, NLMK Clabecq plans to focus on diversifying the sales geography for abrasion resistant and high-strength steels and on strengthening its position in the oil and gas and yellow goods sectors.

**NLMK VERONA**

NLMK Verona specialises in the production of forged ingots and thick plates. Its focus is HVA products in various thicknesses from 20 mm to 1000 mm. NLMK Verona operates a one-of-a-kind continuous

caster that produces billets up to 500 mm thick. The Company's production capacity is 450,000 t/y of plates, which are supplied to key sectors, including oil and gas, machine building, car manufacturing, and heavy equipment.

In 2011, NLMK Verona completed its key capex project, bringing its thermal processing units up to design capacity. In the future, the Company plans to expand its thermal processing capacity and product offering by adding a wider range of product sizes, changing mechanical properties, and improving the quality of finished goods, as well as enhancing its integration with NLMK by reducing slab supplies from third parties.

**NLMK DANSTEEL**

Our rolling mill in Denmark specialises in the production of thick plates (6-150 mm) for wind turbines, shipbuilding and pressure vessels. It has a total production capacity of over 550,000 t/y. In 2011, NLMK DanSteel increased its presence in the wind energy market, and started supplying plates to offshore oil and gas projects. The Company is targeting the North European market, particularly Norway, where investments into oil and gas are the highest.

In Q3 2012, NLMK DanSteel is planning to install a new Rolling Mill 4200 that will raise its future capacity to 700,000 t/y.

**Performance**

Deteriorating economic conditions in H2 2011 lead to a slump in orders. Nonetheless, we were able to leverage off our competitive advantages as a niche producer and maintain our solid operating performance. In 2011, the Division businesses produced 1.0 mt of plates, +4% y-o-y. All businesses posted operational improvements.

NLMK DanSteel's key markets showed relatively stable demand. The Company increased deliveries to the strategically important Polish market. Demand grew in the export oil and gas market for NLMK Clabecq products as an increase in oil prices brought in more orders. At the same time, European currency volatility put pressure on the Company's performance.

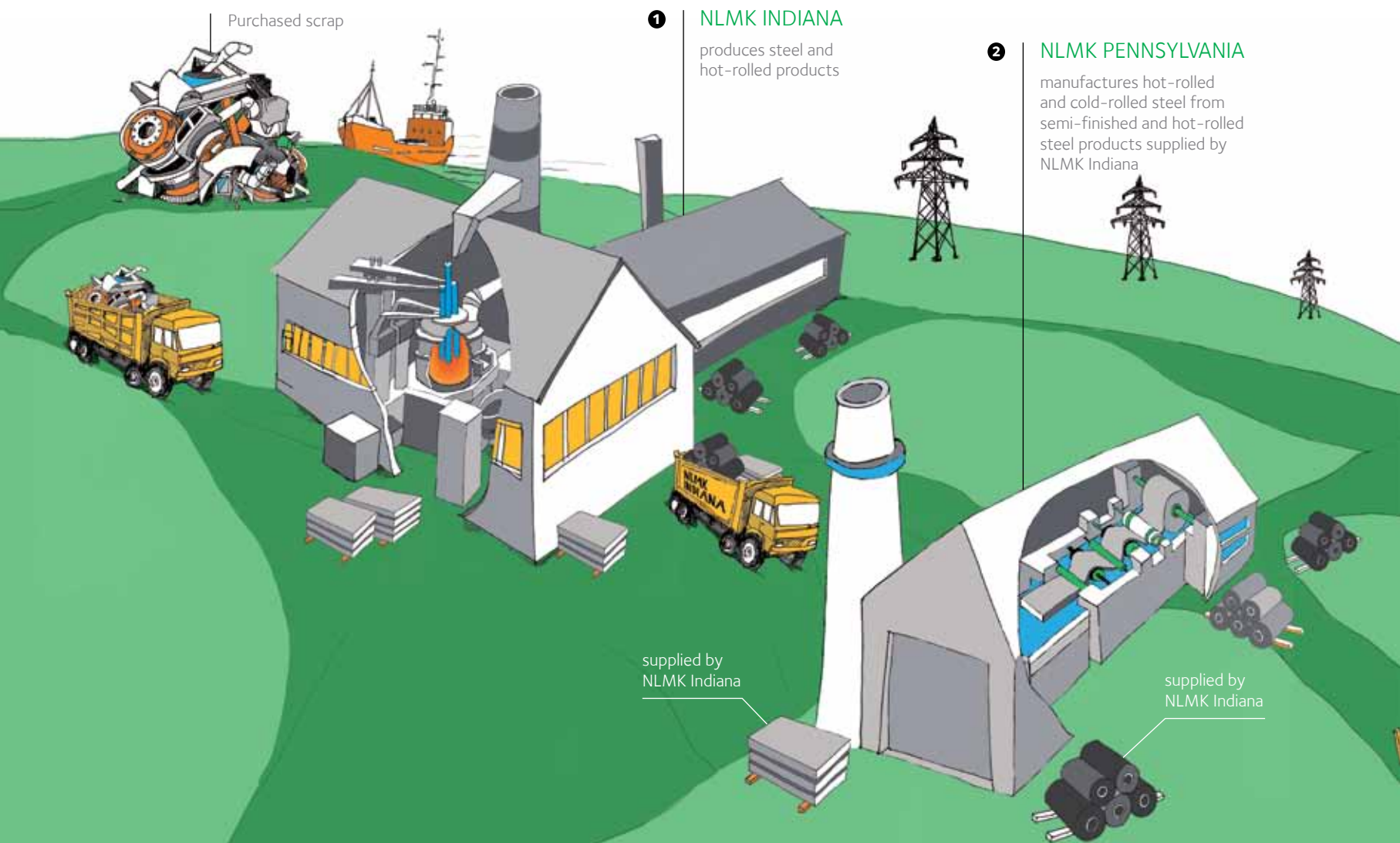
The key strategic area for the development of NLMK Europe Plates in 2012 is further asset integration within the division. Segment assets with a wide high-quality niche product offering plan to limit their dependence on the conditions in the European steel market by extending their presence in new sales markets.

# NLMK USA

NLMK USA has a diversified base of flat steel producing plants, comprising three production sites at NLMK Indiana, NLMK Pennsylvania and Sharon Coating, manufacturing slabs, hot-rolled, cold-rolled and galvanised products.



## CREATING VALUE THROUGH INTEGRATION IN THE USA





**Robert D Miller** (left)  
President, NLMK USA

Mr Miller was appointed in 2011 the President, NLMK USA, responsible for the Corporate Services Group. From 2003-2011, he held the position of Executive Vice-President & CFO of Duferco Farrell Corporation and later NLMK USA. In 1998, he joined Duferco as Treasurer of their USA Operating company.

Mr Miller holds a Business/Finance degree from The Pennsylvania State University and a Master's in Business Administration from Duquesne University, Pittsburgh, Pa.

**Paul Fiore** (right)  
President and Chief Operating Officer, NLMK USA

Mr Fiore currently serves as the President and COO of NLMK USA Operations. He has held this position since March 2010. Prior to this, he was the President of Duferco Farrell Corporation and Sharon Coating. He joined Duferco Farrell Corporation in 1998 as the Vice-President of Operations.

Mr Fiore received his degree in Sociology from Thiel College, Greenville, PA, in 1981. Upon graduation, he accepted a position in management with Sharon Steel Corporation. In total, Mr Fiore brings over 30 years of steel industry experience to NLMK.

### OPERATING HIGHLIGHTS

**85%**

Utilisation rate for crude steel production

**65%**

Utilisation rate for flat steel production

**0.6 mt**

Steel output

**1.7 mt**

Flat products output

**US\$904/t**

Average selling price

### OPERATING COMPANIES

NLMK Indiana  
NLMK Pennsylvania  
Sharon Coating

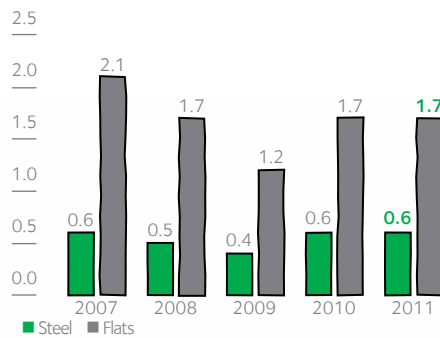
### PRODUCTS

Slabs, hot-rolled, cold-rolled and galvanised products

### END USES

Construction, pipe and tube, machinery sectors, service centres and metal traders in the United States

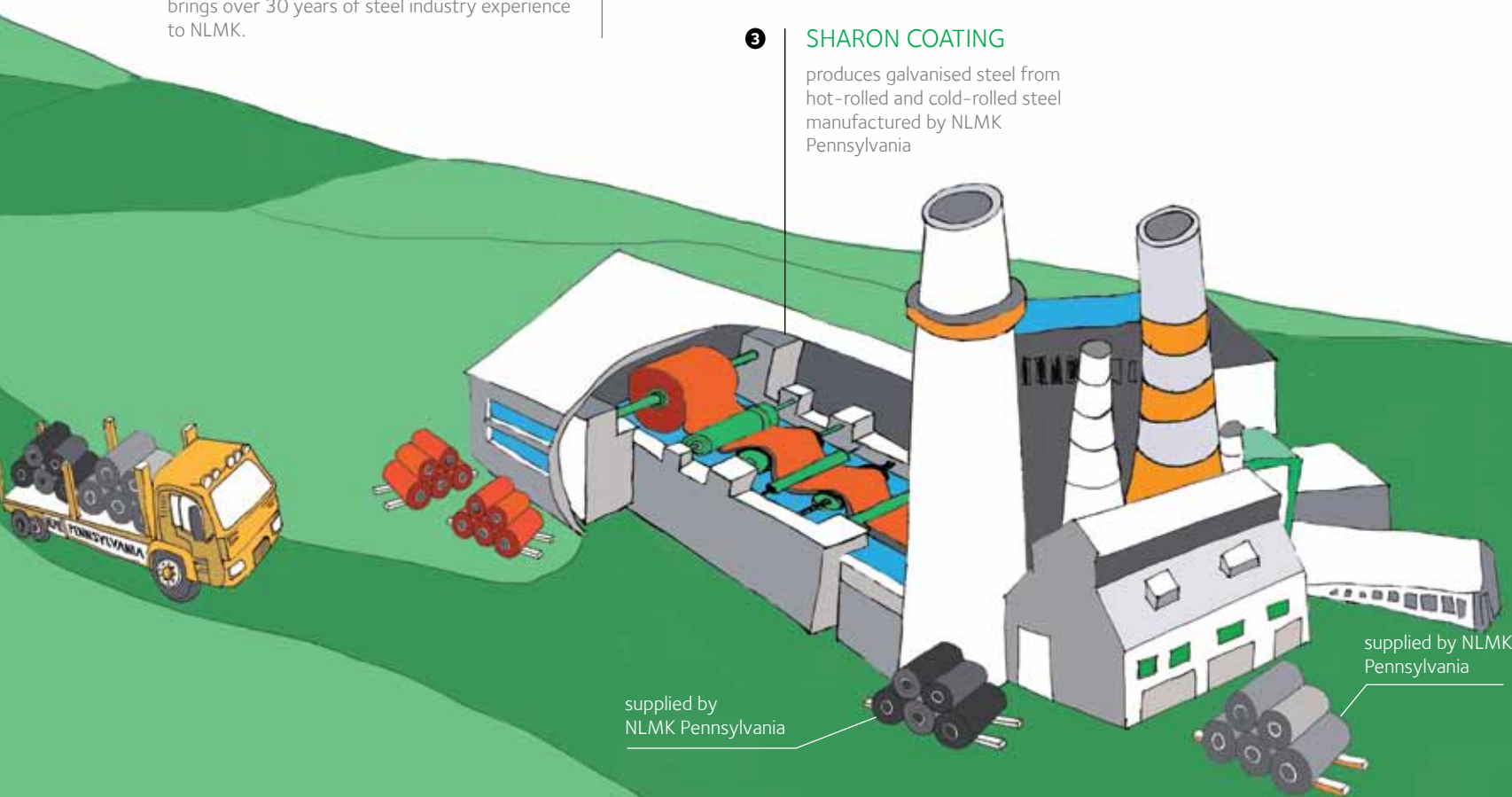
### NLMK USA STEEL AND FLATS OUTPUT\* (mt)



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

### 3 SHARON COATING

produces galvanised steel from hot-rolled and cold-rolled steel manufactured by NLMK Pennsylvania



supplied by NLMK Pennsylvania

supplied by NLMK Pennsylvania

**NLMK USA OPERATING PERFORMANCE**

| Assets            | Location              | 2011 output (mt)                  | 2010 output (mt) | Change (%) |
|-------------------|-----------------------|-----------------------------------|------------------|------------|
| NLMK Indiana      | Portage, Indiana      | <b>Steel: 0.61</b>                | 0.56             | +9%        |
| NLMK Pennsylvania | Farrell, Pennsylvania | <b>Commercial slabs: 0.01</b>     | 0.01             | +6%        |
| Sharon Coating    | Sharon, Pennsylvania  | <b>Hot-rolled steel: 0.83</b>     | 0.86             | -4%        |
|                   |                       | <b>Cold-rolled steel: 0.53</b>    | 0.52             | +2%        |
|                   |                       | <b>Galvanised steel: 0.32</b>     | 0.29             | +9%        |
|                   |                       | <b>Total steel products: 1.69</b> | 1.68             | +1%        |

The new division brings synergies through a common distribution structure offering a wide range of steel products to the construction, pipe and tubes and machine building sectors in the United States.

**NLMK INDIANA**

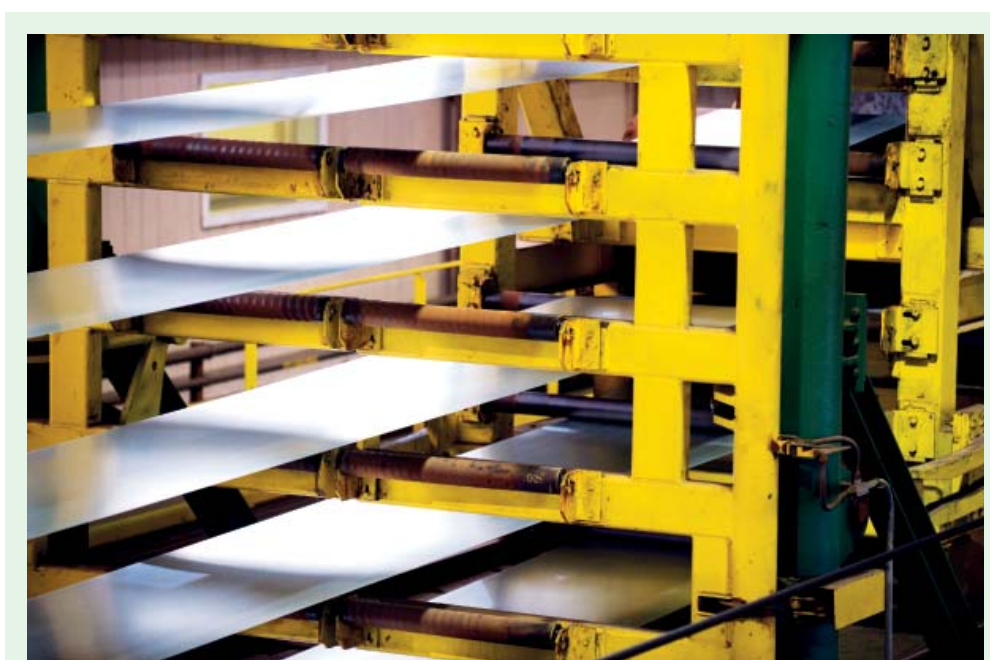
NLMK Indiana is a steel mini mill specialising in the production and sale of hot-rolled coils. The Company operates an Electric Arc Furnace Melt Shop of 700,000 t/y capacity and a Hot Strip Mill of 900,000 t/y capacity. NLMK Indiana's facility is strategically situated to maximise access to raw materials (scrap), as well as demand from, and prompt delivery to, the Company's customers, which include primarily steel service centres and pipe and tube manufacturers.

In 2011, the Company posted record operating results through boosting production efficiency, high operational flexibility, and deeper integration with NLMK USA rolling mills. In 2012, NLMK Indiana plans to increase plant utilisation rates and extend its client base.

**NLMK PENNSYLVANIA**

NLMK Pennsylvania is a producer of carbon steel including hot-rolled, cold-rolled and full hard products, as well as other cold-rolled fully finished product types. NLMK Pennsylvania's share in the high-carbon steels market is circa 8%. The plant has a capacity of 1.8 mt/y of hot-rolled steel.

In 2011, the Company posted good performance, the key factor supporting the Company's profitability being the successful cooperation with substrate and semi-finished suppliers. This enabled the Company to reduce the effect of raw material price volatility and to ensure uninterrupted supplies of raw materials, supporting earnings amidst demand instability.



**NLMK Indiana and NLMK Pennsylvania set new production records**

NLMK's plant at NLMK Indiana ended 2011 setting 10 new production records. In the Melt Shop, capacities were running at over 90%, while in the Hot Strip Mill (HSM), the monthly record for throughput was broken 4 times in 2011. HSM total tonnes produced grew by 2% versus the best of 2010. In 2011, the HSM also processed 11% high-carbon grades, a new high level of production for these grades.

Several production records were set by other NLMK USA companies. For instance, in 2011 the Specialty Strip area at NLMK Pennsylvania posted a volume record for the second straight year (+9% compared to 2010's record). It also set a tonnes-per-turn record. On the quality front, the Company's Tandem Mill set a new all-time best for diverted tonnes, beating a long standing record from 2003.

**SHARON COATING**

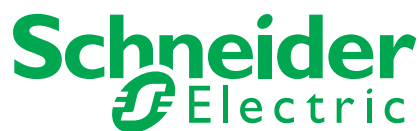
Sharon Coating is a producer of hot dip galvanised steel in a range of product types that include extra-deep drawing, high-strength, dual phase and Bake-Hardenable (BH) steels. The Company operates three hot dip galvanising lines with a total annual capacity of 800,000 t.

NLMK Pennsylvania is the key substrate supplier for Sharon Coating and in 2011 it supplied 250,000 t of substrate to Sharon Coating. The Company is strengthening its competitive advantages by extending its client base through increasing contract sales at controlled prices. In 2012, the Company expects to improve its operating efficiency as conditions get better in the galvanised steel market.

# SUPPORTING BUSINESSES

## SUPPORTING BUSINESSES

| Company                                    | Location    | Business activity                   |
|--|-------------|-------------------------------------|
| Novex Trading                              | Switzerland | Export and local trading operations |
| Novexco                                    | Cyprus      | Export and local trading operations |
| NLMK Trading House                         | Russia      | Raw material supplies               |
| Shans                                      | Russia      | Insurance                           |
| National Laminations                       | India       | Service centre                      |
| NLMK SMT (Construction and Assembly Trust) | Russia      | Construction                        |



### Schneider Electric names NLMK's trading company as preferred supplier

Novex Trading (a trading company within the NLMK Group) has been chosen by Schneider Electric, an international company specialising in electric energy management in civil and residential construction, industry, power engineering and infrastructure, as its preferred supplier.

Assessment of 2010 results revealed that Novex Trading SA demonstrated a high level of performance in terms of product quality, logistics, cost saving, technical and process innovations, sustainable development and cooperation, meeting all the requirements set forward by Schneider Electric.

Currently only 250 of Schneider Group's suppliers have been honoured with the "preferred supplier" title.

In addition to its production assets, the NLMK Group also includes traders allowing it to enhance its export efficiency and to streamline commodity flows.

### TRADING

#### Novexco and Novex Trading

Novexco (Cyprus) and Novex Trading (Switzerland) trading companies joined the Group in 2008 and are helping the Group to develop an effective sales system as well as to optimise commodity flows. These companies have extensive experience in steel trading, operate with a vast client base and cooperate closely with end-customer agents and representatives, thereby improving control over exports.

In 2011 the trading companies sold 5.7 mt of steel products produced by our Russian steel plants. In addition to steel products, the trading companies are also involved in exports of iron ore, coke and chemical products.

#### NLMK Trading House

NLMK Trading House is responsible for consolidated supplies of some raw materials and inputs to the NLMK Group. In 2011, its share of purchases for NLMK was 78%. NLMK Trading House manages the sales of some sideline products of NLMK Group businesses, including via back-to-back deals with raw material suppliers. This accounted for 35% of NLMK Trading House revenue in 2011.

In 2011, raw material and input supplier sourcing procedures for a total of over RUB2 billion (an equivalent of US\$68 million) were managed through NLMK Group's corporate electronic trading facility ([www.td-nlmc.ru](http://www.td-nlmc.ru)). NLMK Trading House provides the methodological and information support of this resource.



### Divestment of NTK

In line with NLMK's strategy aimed at streamlining the Company's asset structure and splitting off non-core assets, in June 2011 NLMK inked the deal to sell 100% holdings in Independent Transportation Company LLC (NTK) to Universal Cargo Logistics Holding B.V. (UCL Holding). NTK's core business is railroad transportation using its own and leased freight car fleet.

The cash consideration in the transaction was US\$325 million and the net debt of NTK at the completion of the transaction was around US\$238 million.

NLMK signed a long-term agreement with NTK to continue supplying transport and rail logistics services to NLMK, thus ensuring the Group's transportation security. NTK will render transport services to NLMK and other freight owners using rolling stock owned by UCL Holding, one of the largest railway wagon fleet owners in Russia.

### Service centre in India

In October 2011, NLMK acquired the National Laminations Group, an electrical steel service centre in India, for a total consideration of US\$68 million. The acquisition was aimed at enhancing NLMK's position in the niche segment of the fast-growing Indian market.

The National Laminations Group is a grain oriented (transformer) steel processing and distribution company. It has processing and warehousing capacities of 16,000 t/y and 15,000 t/y, respectively, located 200 km from Mumbai. It also has a warehousing capacity of 40,000 t located 20 km from Mumbai, in close proximity to the port that facilitates delivery of imported NLMK material.

The location of the Company's sites not only provides access to customers based in Western India, who represent a significant share of the national transformer steel consumption, but also significantly enhances our pan-India distribution capability by reducing delivery lead time. The Company supplies processed materials to a wide range of customers, including local and international transformer producers.

# PROVIDING SUPERIOR QUALITY TO OUR CUSTOMERS

Innovation has always been and will continue to be at the very heart of our culture. Many of the technologies that we now offer were created by NLMK and many of these have now been adopted by our peers around the world, in so doing transforming the industry.

**We believe that, if we are to maintain our leading position in the marketplace, we have to offer our clients products of superior quality to those on offer from our competitors. These products need to be in line with the current and future needs of our customers and at a more cost-effective price. In addition, if we are to maintain our growth, we need to be aware of new opportunities and, in general, these can only come from an innovative approach to everything that we do.**

Flexibility, the willingness to change and adapt to new conditions, supported by a system for motivating employees to innovate and use new solutions is a corner stone of our organisational model. Our goal is to be the preferred supplier of steel products for our clients. In order to achieve this, we are willing to work with our clients on developing new and adapting existing solutions that would fully meet their needs and sharpen their competitive edge.

Our R&D departments employ 1,131 NLMK staff on research and development activities. As an indication of our success to date, these staff hold 250 live patents with five new patent applications being submitted in 2011, three of which are international patents. NLMK has invested over RUB5 billion (US\$170 million) in its R&D activities during the last three years as it seeks for innovations that will:

- Increase our competitive edge by developing new products to satisfy customer needs;
- Improve our operating efficiency; and
- Minimise our environmental footprint.

## PRODUCT RESEARCH & DEVELOPMENT

Over the years, our teams have developed products that enable our customers to improve the quality of their goods and services and, in the end, enable them to become leaders in their fields.

### Construction

NLMK now manufactures galvanised steel from hot-rolled steel substrate in thicknesses from 2.5-4.0 mm. This steel, available with high ductility and high strength is widely used in construction but, prior to its introduction by NLMK was not manufactured in Russia. Furthermore, NLMK has extended its capability for manufacturing galvanised steel to include continuous hot dip galvanised cold-rolled products in thicknesses from 0.22-0.29 mm, previously only available in Russia by electrolytic galvanising. This steel is widely used in construction and in interior finishing.

The next development will be the manufacture of long steel products at the new Kaluga Mini Mill once that is commissioned by year-end of 2012. The mill has been designed to produce extra high-strength (AT1000) rebar. This steel is used in the construction of high-rise building where advantage can be taken of its high-strength to reduce the amount of steel employed. Developed in response to customer demand, the AT1000 rebar improves the safety of construction while reducing construction costs.

### Energy

NLMK is the leading Russian manufacturer of high-tech electrical steel for the energy and machine building sectors. The rapid development of the consumer sectors is constantly increasing the demand for improvements in the quality of both Grain Oriented (GO) and Non Grain Oriented (NGO) steels in order to improve the competitiveness of the end products. To this end, a number of patented innovations, including decarburisation, nitrogenisation and laser treatment of the transformer steel allows the efficiency of the transformers manufactured with these special steels to be increased, reducing specific energy losses by up to 15%.

NLMK has recently produced the first samples of a brand new product – nanostructured, high-permeability transformer steel – using a process developed specifically by NLMK engineers. The quality of this product is believed to be superior in many ways to that on offer from our global peers.

### Automotive manufacture

Following the revamp of the basic oxygen steelmaking process at Novolipetsk, NLMK has been able to introduce new products to help automotive manufacturers in their efforts to improve vehicle safety and security while, at the same time, reducing weight and hence improving fuel consumption. Among the new grades of high-strength, low-alloy steels that reduce the steel intensity of car bodies, such as grade S700MC hot-rolled steel, class HSLA cold-rolled and hot dip galvanised steel.

NLMK has successfully mastered the production of ultra high-strength steel with an optimal strength/workability balance, such as HB cold-rolled steel, IF cold-rolled and galvanised steels.

The use of the new, advanced steelmaking processes has enabled NLMK to manufacture the dual-phased steels that combine high ductility and strength. NLMK Europe has pilot tested the production of rolled products from S700MC, HCT600X, HX220Y, HC260Y steel grades, used in machine and automotive manufacture and a trial batch has been supplied to the Volkswagen car plant in Kaluga.

### Machine building

Machine and equipment manufacturers are among our key consumers and so the NLMK Group has worked consistently to improve its product offering for these demanding clients. In 2011 NLMK Clabecq (Belgium) launched a new Quenching and Tempering Line to manufacture special niche-thickness plates used in the manufacture of heavy duty machine components.

We've launched full-scale production for several grades of special-purpose steels in a wide range of dimensions, 3-40 mm thick and up to 2750 mm wide:

Quard® 400 and Quard® 450 with tensile strength values up to 1400 MPa and hardness levels up to 420 – 480 HB; and



# 1,131

staff employed  
in our R&D departments

# 250

live patents currently  
held by our staff

Quend® 700 with a high yield strength of at least 700MPa and a tensile strength of 780 – 930 MPa, with breaking elongation of 14% min. High impact hardness at negative temperatures – at least 27 J at – 40°C for sharp notch samples – is the distinctive feature of this product.



Special steel is needed to produce these products and Novolipetsk (our main site in Lipetsk) has responded to the challenge by upgrading its steelmaking processes, adding a vacuum degasser and two ladle furnaces, in order to produce up to 32 new steel grades, including low-alloyed steel.

This investment opens up new process opportunities for mastering the manufacture of finished products for a range of niche consumers, such as wind energy, oil and gas offshore drilling platforms and steel for wear-resistant mechanical components. As a result, NLMK will be able to strengthen its position as a trusted supplier of high-quality solutions for a wider range of machine building applications.

### PROCESS INNOVATIONS

Cost inflation and the ever-growing requirements regarding the quality and new properties of products that call for continuous operating improvements throughout the manufacturing chain are among the key challenges facing modern steelmaking companies.

One of the most advanced blast furnaces in the world, launched at Novolipetsk at the end of 2011, incorporates a whole set of innovative process solutions that have boosted efficiency by a third and reduced CO emissions by a factor of 100. It has an advanced system for de-dusting and gas cleaning, including a cyclone collector, which reduces the amount of blast furnace sludge and, as a result, reduces recycling costs three-fold. The furnace is also equipped with special controls that ensure complete automation of process and

equipment management. Once it has reached design capacity, in terms of specific production (70 tonnes per square metre of the furnace hearth area) and total fuel consumption, the blast furnace is expected to be among the Top 10 best-performing furnaces in the world.

**37** FOR MORE INFORMATION  
ON OUR NEW BLAST FURNACE

The Kaluga Mini Mill will incorporate a whole range of EAF steelmaking innovations. Solutions to reduce tap-to-tap times, reduce the thermal load and minimise maintenance downtime will contribute towards efficiency improvements. A Heat Hardening Line will enable the mill to produce rebar with a strength grade of AT1000. Air emissions will be lower when compared with our leading peers.

Steelmaking is very energy intensive. Growing energy prices push companies to look for new approaches to old issues. At the beginning of the year, NLMK obtained patents for two inventions related to the method for preparing the coal charge for coking and the charge composition itself. Essentially, these inventions suggest using granulated tar pitch as a caking element within the charge and this has been found to have a positive impact on the quality of coke. As a result, NLMK will be able to reduce the consumption of expensive rich coal grades without compromising the quality of coke. This technology is expected to go into industrial production shortly.

**31** FOR MORE INFORMATION ON HOW  
WE USE TAR PITCH TECHNOLOGIES

Throughout the year, NLMK has been successfully integrating the Enterprise Resource Planning (ERP) system at its subsidiaries. Several thousand employees underwent training to learn how to work with the system. Among other improvements, ERP will help reduce lead times by streamlining operating processes.



**Kaluga mini mill**

The plant employs the latest available technologies that both improve efficiency of the processes and boost product quality adding new grades to NLMK's long steel portfolio.

**36** FOR MORE INFORMATION ON  
THE KALUGA MINI MILL PROJECT



**Electrical steel production**

NLMK's R&D engineers designed a new type of high-permeability grain oriented (transformer) steel. Using this steel for transformer manufacturing can ensure power savings of 2 to 3 billion kWh per year on a national scale.

# DEVELOPING A SUSTAINABLE BUSINESS

NLMK has a Corporate Responsibility Policy geared to achieving sustainable development objectives that are aligned with the long-term economic interests of the Company and encourage high standards of public welfare and the conservation of the environment.

The Company, its employees and the local communities endeavour to:

- Create a favourable and predictable social and economic environment for NLMK employees and local communities;
- Improve corporate governance frameworks for the economic, environmental and social activities of the Company;

- Comply with international and national environmental protection standards through focusing on best available practices;
- Observe business ethics principles;
- Develop new types of products to meet customer expectations;

- Create an environment that encourages employees to continuously strive to improve performance;
- Ensure sustainable improvements in welfare and social safety for Company employees and create safe workplace environments; and
- Prevent violations of human rights and applicable labour legislation.

|  | 2011 PERFORMANCE   | 2012 OBJECTIVES   |
|--|--|---|
| <b>CORPORATE GOVERNANCE</b>              | An increasing number of stakeholders are engaged in a dialogue with NLMK. Enhanced efficiency of joint decisions.  | Further stakeholder involvement improvements.   |
|  | In 2011 NLMK optimised its business governance system by integrating foreign assets. In August 2011 two business divisions were created: NLMK Europe and NLMK USA.             | Further corporate governance streamlining.  |
|  | Independent risk management process.   | Integrated risk management system improvements.   |
| <b>IMPROVED EFFICIENCY OF OPERATIONS</b> | Launch of an Enterprise Resource Planning (ERP) SAP system at NLMK Group businesses (VIZ-Stal, Altai-Koks), implementation of the equipment R&M functionality at Novolipetsk.  | Enterprise Resource Planning (ERP) SAP system support and maintenance at NLMK Group businesses. |
|  | Increase in labour productivity to 198 tonnes of steel per person in 2011 (+2% year-on-year).  | Implement measures to increase labour productivity.   |
|  | Hot testing at BF-7 and new BOF, launch of a ladle furnace, vacuum degasser, a new Cogeneration Plant, upgrade of CCM-8, construction of section 4 of the Beneficiation Plant. | Further development of the Group's production and mining capacities.                            |
|  | High capacity utilisation rates for NLMK Group: 93% .  | Ensure high-capacity utilisation rates.   |

“We consider ourselves to be a steelmaking company of the 21st century, and as such we see the key to our success in our personnel capable of making complex decisions and thinking outside the box.”

Vladimir Lisin  
Chairman of the Board of Directors

|                                       | 2011 PERFORMANCE   | 2012 OBJECTIVES   |
|---------------------------------------|--|---|
| <b>PERSONNEL POLICIES</b>             | Average monthly wage for NLMK Group employees increased to US\$1,084 in 2011.  | Improve system of incentives for Company employees.   |
|                                       | Number of employees having completed professional training programmes in 2011 increased by 23%.                                      | Develop personnel engagement procedures at subsidiaries and align them with uniform corporate standards.  |
|                                       | Collective labour agreement commitments were essentially met in 2011.  | Continue with the practice of implementing collective labour agreements at NLMK Group. Ensure compliance with commitments under collective labour agreements. |
|                                       | Headcount streamlining, by writing off non-core assets.  | NLMK Group headcount streamlining.  |
|                                       | High-level KPI system development and implementation. Regular monthly KPI report developed covering all key businesses of the Group. | Implement Stages II and III of the KPI system. Cash cost management according to target levels based on best practices.                                       |
| <b>SOCIAL POLICIES</b>                | All activities planned for 2011 successfully completed. Circa \$12 million allocated to charity.                                     | Implement programmes targeting macro-economic development of regions where the Company is present.  |
| <b>ENVIRONMENTAL PROTECTION</b>       | Environmental projects as part of Stage II of the Upgrade and Development Programme; 2011 investments totalled US\$153 million.      | Continue implementing environmental projects to reduce environmental footprint.   |
|                                       | Specific atmospheric emissions reduced from 28.5 kg/t of steel to 27.8 kg/t.   | Reduced environmental footprint in the regions where the Group operates.  |
| <b>OCCUPATIONAL HEALTH AND SAFETY</b> | Over US\$16 million invested into OHS in 2011.   | Implement measures designed to create a healthy and safe working environment for Company employees.   |
| <b>CUSTOMER SATISFACTION</b>          | NLMK product quality received high level of consumer appraisal in 2011.  | Continue responding to all customer requirements and expectations.  |



**Stanislav Tsyrlin**  
Vice-President, HR and Management System

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

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

## HR POLICY

Sound HR management is the cornerstone in the development of NLMK.

The Group's HR policy is based upon:

- **A social partnership between employees and their employer;**
- **The mutual accountability for results;**
- **The provision of safe working environments;**
- **A performance-based wage structure;**
- **Equal opportunities for all employees;**
- **Maintenance of social benefits and guarantees; and**
- **The implementation of additional corporate social initiatives.**

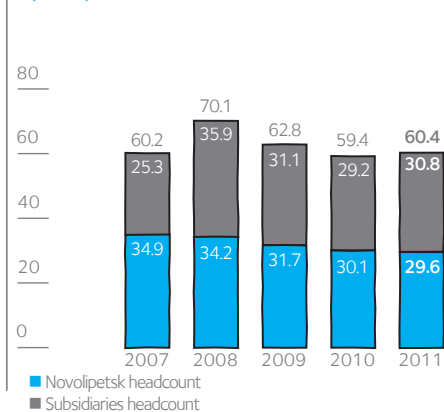
Steadfastly adhering to these principles, NLMK is developing and implementing programmes to encourage better productivity and performance by all employees and rewarding this with a stronger growth in wages; to enhance their professional skills and to enable them to achieve career promotions; to attract the best young talent and to retain skilled professionals.

In July 2011, NLMK completed the acquisition of a number of foreign rolling mill assets and this led to the creation of new business divisions and also to changes in the Group's personnel makeup.

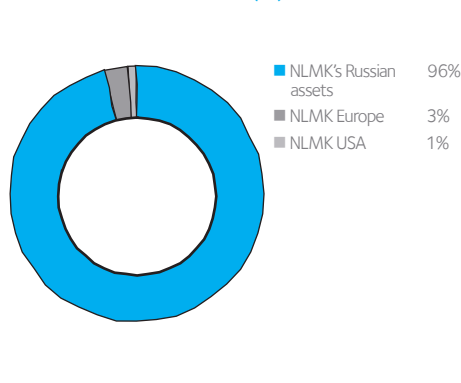
The Group continued to implement a programme of streamlining its employment levels to bring them into line with the best international standards. During 2011, the Group's average headcount was 60,400 employees, of which 29,600 were employed at the Lipetsk site. Reductions in the number of employees at Novolipetsk were achieved both by the streamlining programmes and by outsourcing support function to NLMK Uchetny Centre LLC, Gazobeton 48 LLC, and Cleaning Company LLC, all affiliates of NLMK.

Throughout 2011, NLMK has continually sought to improve the wage structure as it sees this vitally important in retaining its existing workforce, in attracting new young staff and also as a means of encouraging the employees to improve their performance and product quality. The key priority of the Company's HR policy is to create a favourable environment for labour productivity and manufacturing of HVA products.

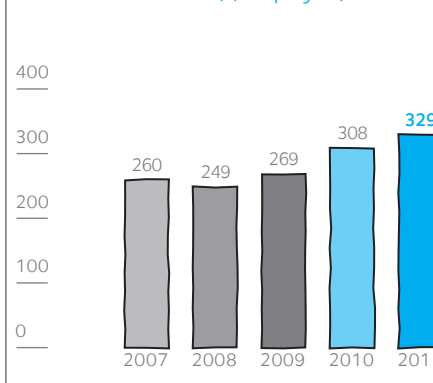
**NLMK GROUP AVERAGE HEADCOUNT ('000)**



**NLMK GROUP PERSONNEL BREAKDOWN IN 2011 (%)**



**STEEL PRODUCTION PER EMPLOYEE AT NOVOLIPETSK (t/employee)**



Over  
**40,000**  
employees went through  
professional training

**RUB31,800**  
average monthly wage

Within the Group's Russian businesses, average monthly wages in 2011 reached RUB31,800 (US\$1,084).

If a modern steelmaking company is to remain at the forefront within its industry, maintaining flexibility and sustainability in the face of changing economic conditions, it is vitally important that it has and continues to develop, a highly skilled workforce. Today, more than half of all NLMK employees have attained a high level of professional qualification.

In 2011 over 40,000 people went through professional training: 60 people received targeted funding from the Company to complete their higher education; 8,300 people received professional education, or improved their qualification; 17,100 people went through the obligatory occupational health and safety trainings, including based on supervisory requirements; 2,200 people were taught to work with SAP/R3; 4,600 people went through skill pool training programmes; 6,700 people improved their skills through training sessions, seminars and courses; and over 1,000 people had their internship trainings in a new position and attended industry-specific conferences.

To this end, NLMK believes that investments in professional personnel training are a prerequisite for maintaining long-term competitiveness, fast-paced development, increasing the value of human capital and, ultimately, the value of the Company. Proper professional training not only provides the skill levels required to handle production challenges, but also improves employee loyalty and dedication. It also encourages a healthy social and psychological climate at work, and has a direct impact on the development of a corporate culture.

The Company operates hazardous production facilities and is ultimately responsible for the lives, safety and well-being of its employees. Its current

occupational health and safety management system is designed in line with the best international practices.

During a time of a significant increase in production and a large amount of construction work related to the commissioning of large-scale facilities, the management's OHS efforts helped to prevent any substantial increase in the number of accidents at the Group's Lipetsk site in 2011.

The Company has an occupational health and safety policy in place.



Key points of our OHS policy are published on our corporate website at <http://www.nlmkgroup.com/en/home/investo-relations/governance/corporate-documents.aspx>

### SOCIAL PROGRAMMES

The responsibility of a professional and caring employer does not stop at the factory gate. NLMK fully recognises that the long-term sustainability of its operations depends greatly upon the macro-economic state of the communities surrounding its production facilities. For this reason, it pursues a number of social programmes, including mandatory and voluntary medical coverage for its employees, participation in a private pension benefit programme, construction of housing and other activities.

NLMK's involvement goes further than this, however. It reinforces its social work with a strong commitment to charity work promoting health and fitness, sports, science, culture and the arts. The Company provides support to low-income senior and physically challenged citizens and to art clubs for children, studios, libraries, museums and art galleries. Financial aid is provided to protect and maintain historical and architectural monuments, all of which is seen as supporting NLMK's claim to be a Company with a strong social responsibility agenda.



### Young Leader contest

In 2011, NLMK held the 7<sup>th</sup> Annual Corporate Contest, "NLMK's Young Leader". The goal of the contest is to find and support young talented employees under 35 and to create a stimulating environment for their professional and career growth. Over 700 employees participated in the contest.

NLMK's Young Leader has been held since 2005 as part of the Company's youth support programme. It gives young specialists the chance to prove themselves, to showcase their professional business skills, paving the way for a successful career. Since the launch of the contest, over 80 young employees have already been included into the Company's talent pool database.



**Yury Larin**

Vice-President, Development and Environment

From 2006 to 2007 Mr Larin served as Vice-President for Technology and Environment. He served as Director of the NLMK Engineering Centre from 1999 to 2006, and as Deputy Director for Technology at NLMK's Central Laboratory between 1996 and 1999. He is a graduate of the Voronezh Polytechnic Institute. Ph.D., Tech.

## THE ENVIRONMENT

Throughout 2011, despite changes in the commodity markets, the acquisition of new assets and the investment in new production facilities, NLMK maintained its emphasis on protecting the environment as well as ensuring sustainable development of the regions where the Group is present (both environmental and social).

With regard to environmental protection, NLMK adheres strictly to its Environmental Policy. The Company believes that by developing and consistently implementing the corporate principles of our Environmental Policy we can eliminate the potential risks of limiting NLMK Group's development based on environmental criteria.



Our Environmental Policy is published on our corporate website at <http://www.nlmkgroup.com/en/home/investo-relations/governance/corporate-documents.aspx>

NLMK was able to reduce the impact of its operations upon the environment through focused capital investment. In 2011, the NLMK Group spent US\$153 million on technology upgrades that ensure

environmental protection, bringing the total environmental investment over the 5-year period 2007-2011 to US\$638 million.

Across core NLMK Group assets, specific air emissions per tonne of steel declined by 3% in 2011, while steel output at our Russian assets increased by 2% compared to 2010.

An increase in finished product output for NLMK Group in 2011 had no negative impact on our environmental performance. Moreover, aggregate data for the Group reveals a trend towards a pre-emptive reduction in our air and water footprint.

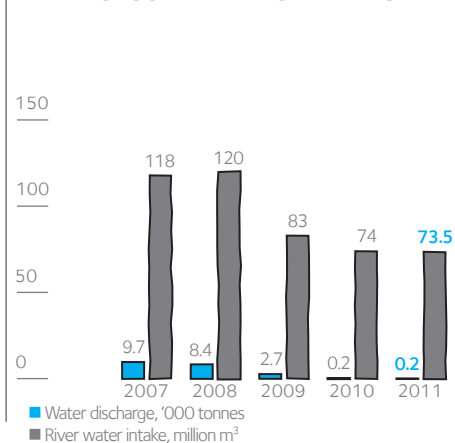
Water consumption varies across Group businesses depending on the nature, scale and profile of the operations. As we've already mentioned, a dramatic change in water consumption by the NLMK Group was achieved with the completion of the process water supply network upgrades. In 2011, water consumption was reduced at VIZ-Stal (-20.5% y-o-y with output growing 9.9%) and at NLMK Russia Long division (-26% with output reducing 13.5%).

### NLMK GROUP'S ENVIRONMENTAL PERFORMANCE IN 2011\*

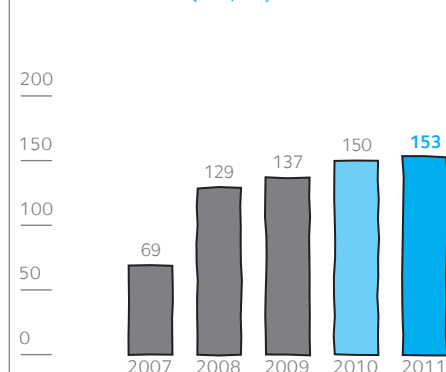
| NLMK Group's specific air emissions (per tonne of steel) | NLMK Group's effluent discharge | NLMK Group's water consumption | NLMK Group's environmental investments |
|--|---------------------------------|--------------------------------|--|
| -3%  | 11%                             | -0.4%                          | +2%                                    |
| 27.8 kg/t  | 245 t                           | 73.5 million m <sup>3</sup>    | US\$153 million                        |

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

### NLMK GROUP WATER BODY IMPACT



### ENVIRONMENT INVESTMENTS BY THE NLMK GROUP (US\$ m)



#### NLMK among Russia's leaders in environmental management

In 2011 Novolipetsk was again among the winners of the "100 Best Russian Organisations, Ecology and Environmental Management" competition. The Company was also among the winners of a nationwide competition "Best Russian Enterprises. Dynamics, Efficiency, Responsibility" in the nomination "For Environmentally Responsible Business", organised by the Russian Union of Industrialists and Entrepreneurs.

Novolipetsk successfully passed a recertification audit by TÜV Rheinland Cert GmbH (Germany). The certification body granted the Company an extension of the validity of its universally recognised environmental standard for the next three years.

A number of our businesses have the advantage of the zero-discharge water disposal systems, including Novolipetsk, Stoilensky, Altai-Koks, and VIZ-Stal. In 2011 the Group's water body impact was 245 t.

In a Group such as NLMK, which has based its success upon a high level of vertical integration, the potential sources of environmental damage are wide and varied. Group businesses represent different segments of the mining and metals sector and show varying volumes of waste generation, ranging from small (typical for rolling assets) to significant (common for mining businesses).

In 2011, the most efficient levels of waste management were recorded at NLMK Russia Long (141.3% recycling), Novolipetsk (98.3% recycling), and Altai-Koks (97.2%). Looking at the Group's overall environmental performance in 2011 against 2010, the estimate is as follows: total emissions increased by 0.3% (mostly due to Altai-Koks), while water consumption was down 0.4%.

In addition to internal perceptions as to the success of the environmental protection policies, it is also important to see how they measure up in the National and International markets. NLMK Group businesses are compliant with international environmental management standards and, in 2002, Novolipetsk received its first certificate of compliance with international standard ISO 14001:2004 Environment Management System. In 2005, 2008, 2011 Novolipetsk successfully passed recertification audits performed by TÜV CERT (Germany) for compliance with ISO 14001:2004.

At the end of 2007, Stoilensky certified its environmental management system under ISO 14001:2004. In 2010 it successfully passed the recertification audit performed by Det Norske Veritas, followed by a regular compliance audit in 2011. Altai-Koks and NLMK DanSteel continue to work on their management system procedures under ISO 14001:2004.

At the National level, in 2011, Novolipetsk and Altai-Koks won awards for "The Most Environmentally Responsible Business" in a contest held by the Russian Union of Industrialists and Entrepreneurs. Novolipetsk also came first in the Russia's "Top 100 – Ecology and Environmental Management" competition organised by the State Duma and the Council of the Federation of Russia.



**NLMK Clabecq: Green makes it lighter**

Modern designs of heavy machinery and construction require strong steel plates for increased load carrying capacity and to better withstand wear exposure over a long period of time.

NLMK Clabecq is a specialist in the production of thin-gauge heavy plates. The use of high-strength steel in thin gauges (from 3 mm) allows a weight reduction to be achieved. A lighter dumper can carry a heavier load and a stronger crane will be able to lift a heavier weight. Since the energy consumption per transported or lifted weight unit will thus be reduced, upgrading to higher strength steel has a positive effect on the CO<sub>2</sub> emissions during the life cycle of the equipment.

By the end of 2011, a new finishing line, designed in a greener perspective to produce quenched and tempered steel, was commissioned.

The energy-saving and emissions-reducing enhancements are successful both at the upstream production level and at the downstream user level.

By taking a whole-process view – from the manufacturing process through the characteristics of the Q&T steels to the end products – NLMK Clabecq has optimised its impact on the environment.

# GOVERNANCE

IN THIS SECTION



## 82 CHAIRMAN'S LETTER

An address from Vladimir Lisin outlining how the Group is committed to leading standards of corporate governance.



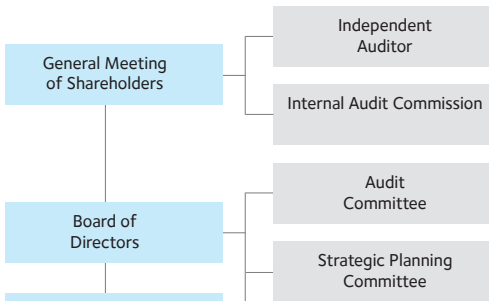
## 82 BOARD OF DIRECTORS

The Board of Directors which is responsible for the governance of the Group, its overall strategic direction and the success of NLMK.



## 84 MANAGEMENT BOARD

The Management Board which is responsible for implementing and executing the strategy set by the Board and ensuring the Group delivers its strategic objectives.



## 85 CORPORATE GOVERNANCE

The principals and processes that the Board adheres to ensure transparency for all stakeholders, including the committee reports.



## 91 INFORMATION FOR SHAREHOLDERS

Key information for shareholders including share and dividend information.



## CREATING VALUE THROUGH INTEGRATION

“Working at the NLMK Europe Plate business unit means working for a group in constant development. Beside the new markets we supply with the Quard and the Quend, we now have one of the largest dimensional ranges on offer in the EU thanks to the integration of the 3 plate mills’ commercial organisation. With the new Quarto at NLMK DanSteel and the supply of thicker and wider slabs from CC8 of Novolipetsk, our offering will be even wider at the end of 2012. As Product Manager for plates for pipes, I’m really looking forward to the moment when we will have the possibility to offer plates for production of pipes of up to 48” diameter.”

Antoine Heger,  
Marketing Department,  
NLMK Clabecq

## GOVERNANCE: BOARD OF DIRECTORS

Today the quality of governance is an important competitive advantage, often setting apart the winners from the losers. Over the past decades, NLMK has been consistently and steadily working on improving the quality of its corporate governance system. Our position in the sector speaks for the results. Our members of the Board of Directors and the Management Board have vast experience in crisis management and growth in challenging market conditions. Last year two independent directors – Mr Struzl and Mr Wieser – joined the Board. Their extensive experience in managing global companies, the leaders in their respective sectors, will help us improve the quality of our decision-making processes and protect the interests of our shareholders.

### Vladimir Lisin

Chairman of the Board of Directors



### 1. VLADIMIR LISIN (1956)

Chairman

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

**Education:** Graduated from the Siberian Metallurgical Institute.

In 1990 graduated from the Moscow Higher School of Commerce. In 1992 graduated from the Academy of National Economy under the Government of the Russian Federation, Moscow in Economics and Management. Ph.D., Tech.; Ph.D., Economics; Professor, Department of Market and Economy Issues, Academy of National Economy.

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

**Professional experience:** Started career in 1975. Worked at Tulachemet, rising from assistant steelmaker to shop manager.

From 1986 worked as Deputy Chief Engineer, and Deputy CEO of the Karaganda Steel Plant. Member of Boards of Directors of several leading Russian steel companies since 1993.

### 2. VLADIMIR SKOROKHODOV (1951)

Deputy Chairman of the Board

**Appointment:** Board member since 1996

**Education:** Graduated from Moscow Institute of Steel and Alloys in 1973. In 1976 completed post-graduate studies and obtained a Ph.D.

Ph.D., Tech. (1991). Professor. Holder of National Prize for Science and Technology. Author of 6 books and holder of 158 patents.

**Professional Experience:** Between 1977 and 1991 worked as researcher, head of laboratory, Deputy Director of the Bardin Central Institute of Ferrous Metallurgy, Moscow. Between 1992 and 1994 worked as Chief Expert in the Ministry of Industry and the Ministry of Economy of the Russian Federation.

### 3. OLEG BAGRIN (1974)

Board member

**Appointment:** Board member since 2004

**Education:** Graduated from the State Management University in 2001, Ph.D., Economics, holds a degree in business administration from the University of Cambridge.

**Professional experience:** Director of Libra Capital, investment management company. Prior to joining NLMK was Deputy Chairman of AKB Avtobank in Moscow.

### 4. NIKOLAI GAGARIN (1950)

Board member

**Appointment:** Board member since 2001

**Education:** Graduated from Moscow State University, majored in Law.

**Professional experience:** Since 2003 Chairman at Reznik, Gagarin and Partners Law Offices. Managing Partner since 1999.

Merited Lawyer of Russia.

### 5. KAREN SARKISOV (1963)

Board member

**Appointment:** Board member since 2010

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

**Professional experience:** From early 1990s to 2008 held various executive offices in metals trading companies. In 2006–2007 was Chairman of VIZ–Stal steel mill, Russia. Adviser to the Chairman of the Board of NLMK since 2009.



**6. KARL DOERING (1937)**

Board member

**Appointment:** Board member since 2006

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

**Professional experience:** Between 1967 and 2000 held senior positions in metal companies in E.Germany. From 1979 to 1985 was Deputy Minister, Mining, Metals and Potassium Industry Ministry, E.Germany.

Represented USINOR in Central and Eastern Europe.

Currently heads Project Consulting company.

**7. HELMUT WIESER (1953)**

Board member

**Appointment:** Board member since 2011

**Education:** Received a Master's degree in Mechanical Engineering and Economics in 1981 from the University of Graz.

**Professional experience:** Serves on the board of governors of the International Graduate University in Washington, D.C. on Capitol Hill.

Until November 2011 was an Executive VP and Group President of Alcoa. He also oversaw Alcoa's businesses in the Asia Pacific region. Before that he worked for Austria Metal Group (AMAG) for 10 years, including as executive board member and COO. Earlier, he held several senior positions with Voestalpine, including President of Voestalpine Venezuela.

**8. FRANZ STRUZL (1942)**

Board member

**Appointment:** Board member since 2011

**Education:** Graduated from the University of Economics, Vienna in 1964.

**Professional experience:** Joined Alpine Steelgroup, later Voestalpine AG, Austria, in 1967. In 1981 he was appointed CFO before becoming CEO of Voestalpine Long Products Group and a member of the Executive Board in 1991. From 1995 until 2001 he served as Vice Chief Executive Officer of Group. In 2001 appointed as Voestalpine Group CEO and Chairman. He held the position until 2004, when he moved to become CEO of Voestalpine, Brazil – Villares Metals, remaining there until 2010.

**9. BRUNO BOLFO (1941)**

Board member

**Appointment:** Board member since 2007

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

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

From 1962 to 1978 served as the Director for Exports and was responsible for operations in North America at Italsider, an Italian state-owned metals company. In 1979 he founded Duferco, which has grown into one of the world's largest specialists in trade, production and transport of steel products.

## GOVERNANCE: MANAGEMENT BOARD



### 1. ALEXEY LAPSHIN (1947)

President (Chairman of the Management Board)

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

**Professional experience:** General Director of DanSteel A/S from 2006 and a management and technical consultant with DanSteel A/S prior to that. Head of Department at Rumelco from 1999 to 2002, at the same time serving on the Board of NLMK. Started his career at Gaiskiy mining company in 1967, and then worked for Yuzhuralnickel non-ferrous metals production facility between 1975 and 1994, starting as a foreman and rising to become Deputy CEO.

### 2. IGOR ANISIMOV (1965)

Senior Vice-President, General Director

**Education:** Graduated from the Karaganda State University and the All-Russian Distance-Learning Institute of Finance and Economics. Ph.D., Economics.

**Professional experience:** Served as Vice-President, Technical Upgrade and Construction, NLMK, between 2007 and 2010.

Served as Vice-President, Purchasing, between 2006 and 2007. Worked as Purchasing Director of NLMK from 2001 to 2006, prior to which he was holding various managerial positions at NLMK where he started his career with NLMK in 1995 as an engineer.

### 3. GALINA AGLYAMOVA (1961)

Vice-President, CFO

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

Ph.D., Economics. Merited Economist of Russia.

**Professional experience:** NLMK Deputy General Director for Economics and Finance from 2005 to 2006, and, from 2000 to 2005, Director for Economics and Finance. From 1997 to 2000 worked as Deputy Director for Economics. Joined NLMK as a planning economist in 1985.

### 4. DMITRY BARANOV (1968)

Vice-President, Sales

**Education:** Graduated from the Moscow Aviation Institute and the Finance Academy under the Government of the Russian Federation.

**Professional experience:** Served as Sales Director at NLMK Trading House from 2004 to 2006. Between 2000 and 2004 worked as an expert in the Domestic Market Analysis Division at Rumelco, and later became head of the same division. Prior to that he served as a sales manager for a group of trading companies from 1999 to 2000.

### 5. ALEXANDER GORSHKOV (1961)

Vice-President, Head of Iron Ore Division

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

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

### 6. YURY LARIN (1952)

Vice-President, Development and Environment

**Education:** Graduate of the Voronezh Polytechnic Institute. Ph.D., Tech.

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

### 7. ALEXANDER SAPRYKIN (1967)

Vice-President, Head of Coal Division

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

**Professional experience:** From 2006 to 2007 served as Vice-President, Head of Iron Ore Division, NLMK. From 2002 until 2006 he headed the Raw Materials Market Department at Rumelco, and served as General Director of RUDPROM between 1998 and 2001. In 1997 and 1998 was General Director of VIZEL. Prior to that, he worked as chief specialist for Metallurg CJSC in 1996-1997.

### 8. STANISLAV TSYRLIN (1968)

Vice-President, HR and Management System

**Education:** Graduated from the Moscow Institute of Physics and Technology, Stanford University.

**Professional experience:** From 2004 to 2006 served as Director for Strategy and Management Systems at NLMK, having previously worked for Rumelco from 2003 to 2004. Prior to that he worked for the Boston Consulting Group from 1996 to 2003, serving initially as a consultant, then as a project manager before being appointed Deputy Director.

# COMMITTED TO LEADING GOVERNANCE STANDARDS

NLMK secures the rights of shareholders to receive timely information on the Company's activities in an amount sufficient to enable them to make decisions on managing their shares, as well as to receive a part of the Company's net profits in the form of dividends.

As a public company, NLMK consistently strives to improve its standards of corporate governance, to improve management efficiency and to support the sustainability of its business model and long-term economic growth. By relying on the equal treatment of all shareholders, NLMK's system of corporate governance guarantees investment protection for its shareholders and investors.

NLMK ensures that its shareholders exercise their rights to participate in the management of the Company by participating in meetings, voting on agenda items, receiving timely information on the Group's activities, its governing and internal control bodies. NLMK secures the rights of shareholders to receive timely information on the Company's activities in an amount sufficient to enable them to make decisions on managing their shares, as well as to receive a part of the Company's net profits in the form of dividends.

## CORPORATE GOVERNANCE PRINCIPLES

The following principles form the basis of the NLMK corporate governance framework, namely to:

- Seek to ensure effective and transparent arrangements to guarantee the rights and interests of shareholders;
- Provide equal treatment of all shareholders;
- Seek to provide shareholders with the opportunity to exercise their right to participate in the management of the Company;
- Observe the rights of third parties;
- Pursue a common corporate policy in respect of subsidiary companies, affiliates and other legal entities in which the Company is the founder, a participant or a member;

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

## 1. GOVERNANCE

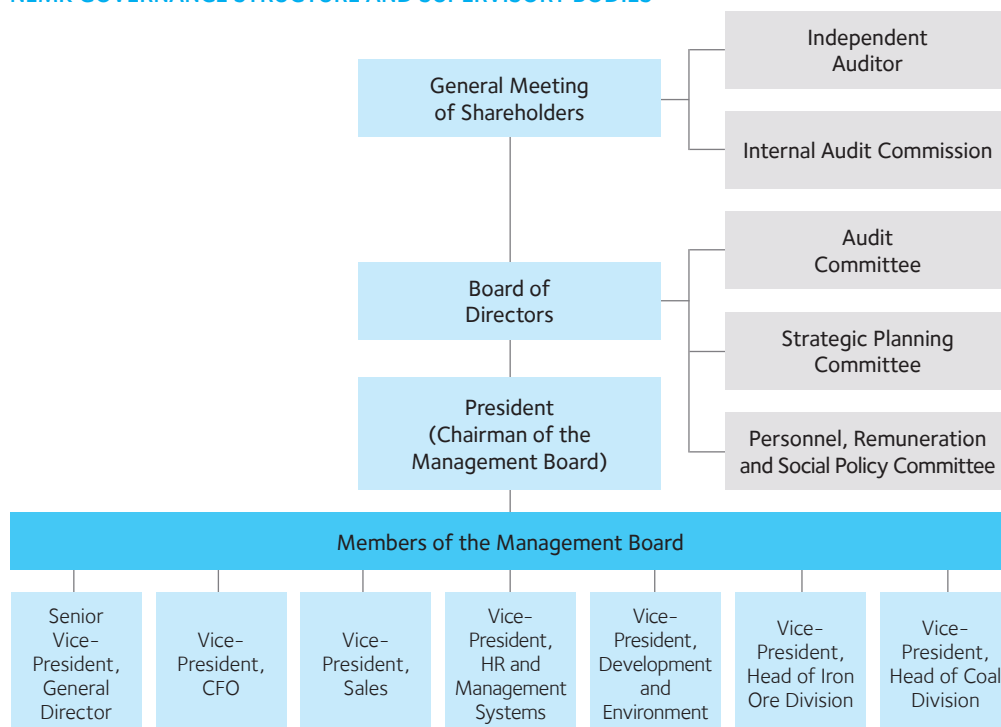
The governing authority of NLMK is the General Meeting of Shareholders. The Board of Directors takes responsibility for the overall operations of the Company and its long-term development

strategy. The executive bodies, the President (Chairman of the Management Board) and the Management Board manage the Company's day-to-day activities.

An Independent Auditor and the Internal Audit Commission supervise the financial and business activities of the Company. Financial statements are subject to mandatory audits in accordance with Russian law and the US Generally Accepted Auditing Standards.

The Group's governance structure and supervisory bodies are shown below:

## NLMK GOVERNANCE STRUCTURE AND SUPERVISORY BODIES



**BOARD OF DIRECTORS**

The Board of Directors of NLMK represents the interests of the shareholders and this is one of the central elements in the corporate governance system of the Company. The Board of Directors exercises overall control of Company operations, defines its long-term development strategy and enforces effective oversight over the financial and operational activities.

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

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

- Defines priority areas of operations;
- Convenes the Annual and Extraordinary General Meetings of Shareholders;
- Approves long-term plans and key programmes of Company activities, including the NLMK budget;
- Establishes the NLMK Management Board, determines its structure and composition, approves Management Board members, their early termination, suspends the powers of the President (Chairman of the Management Board), and appoints an acting President (Chairman of the Management Board);
- Advises the General Meeting of Shareholders on the size of dividends payable on shares and the arrangements for pay-out;
- Uses NLMK’s reserve fund and other funds;
- Approves internal documents;
- Approves large transactions and transactions with related parties;

- Approves the appointment of the Company Registrar, approves terms of agreement with the Registrar, and terminates the agreement;
- Approves decisions with regard to the acquisition and disposal of holdings in other companies, setting up affiliates; and approves NLMK’s participation in other companies if the value of the acquired (disposed) property exceeds 2% of NLMK’s book value as of the last reporting date, excluding participation in financial industrial groups, associations, and other groupings of commercial entities;
- Establishes Board committees and approves their by-laws.

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

The Board meets on a regular basis at least six times a year. Meetings of the Board of Directors are convoked by the Chairman of the Board of Directors in accordance with the approved Annual Plan of Meetings.

Extraordinary Meetings of the Board may be convened by the Chairman of the Board at his own initiative, at the request of a Director, the Internal Audit Commission or External Auditor of the Company, its executive authority, as well as shareholders owning in aggregate more than 5% of voting stock.

Members of the Board receive information (materials) on issues included in the meeting. Decisions by the Board of Directors are approved by a simple majority of votes of Directors present and voting at the meeting, unless otherwise defined by the Charter and law. Every Director is entitled to one vote for the purposes of voting at Board Meetings.

 FOR MORE INFORMATION ON OUR DIRECTORS’ BIOGRAPHIES

**CHAIRMAN OF THE BOARD OF DIRECTORS**

Mr Vladimir Lisin has been Chairman of NLMK’s Board of Directors since 1998, and a BoD Member since 1996.

The Chairman of the Board of Directors is elected from among its members by a majority of votes.

The Chairman organises the work of the Board, convenes the Board Meetings and presides over them, arranges for keeping of minutes during meetings, and presides at the General Meetings of Shareholders, or delegates presiding authorities to a Member of the Board. The Chairman of the Board supervises the consideration of key issues, including NLMK’s strategic plans and priority areas of development, and approval of transactions involving the acquisition of strategically important assets for the Group’s development.

**MEMBERS OF THE BOARD OF DIRECTORS**

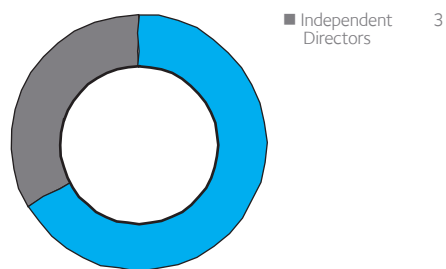
The Board of Directors comprises nine members. This body bases its decisions on the fair treatment of all shareholders. It ensures that shareholders can exercise their rights, and cannot be guided by the interests of one group of shareholders. The Board of Directors can include Executive Directors. Their number cannot exceed a quarter of the total amount of NLMK BoD members (there are currently no Executive Directors on the Board). In accordance with international corporate governance practices and the provisions of NLMK corporate instruments, Independent Directors have been elected to the Company Board of Directors since 2005.

Independent Directors have to be independent from NLMK’s executives, their related parties, NLMK’s large counteragents, and must not be involved with NLMK in any other way that could jeopardise the independence of their opinion. The criteria for Independent Directors have been defined in NLMK corporate by-laws and are in line with international corporate governance practices. At present three of the nine members of the Board are Independent Directors.

**AS OF DECEMBER 31, 2011 THE NLMK BOARD OF DIRECTORS INCLUDES THE FOLLOWING DIRECTORS:**

| Name                 | Position                                  | Years on the Board | Independent | Audit Committee | Strategic Planning Committee | Human Resources, Remuneration and Social Policies Committee |
|----------------------|---|--------------------|-------------|-----------------|------------------------------|---|
| Vladimir Lisin       | Chairman of the Board of Directors        | 15                 |             |                 | ✓                            | Chairman  |
| Vladimir Skorokhodov | Deputy Chairman of the Board of Directors | 15                 |             |                 | ✓                            |   |
| Oleg Bagrin          | Member of the Board                       | 7                  |             | ✓               | Chairman                     |   |
| Bruno Bolfo          | Member of the Board                       | 4                  | Yes         |                 | ✓                            |   |
| Helmut Wieser        | Member of the Board                       | 1                  | Yes         |                 | ✓                            |   |
| Nikolai Gagarin      | Member of the Board                       | 10                 |             |                 |                              | ✓   |
| Karl Doering         | Member of the Board                       | 5                  |             | ✓               | ✓                            |   |
| Karen Sarkisov       | Member of the Board                       | 2                  |             |                 | ✓                            | ✓   |
| Franz Struzl         | Member of the Board                       | 1                  | Yes         | Chairman        | ✓                            |   |

## BOARD COMPOSITION\*



\*We have a total of 9 Directors serving on our Board

The table below shows the attendance at Board meetings by members of the Board of Directors in 2011:

| Board of Directors Member | Participation in meetings |
|---------------------------|---------------------------|
| Vladimir Lisin            | 10                        |
| Vladimir Skorokhodov      | 10                        |
| Oleg Bagrin               | 10                        |
| Bruno Bolfo               | 9                         |
| Helmut Wieser             | 5*                        |
| Nikolai Gagarin           | 9                         |
| Karl Doering              | 10                        |
| Karen Sarkisov            | 10                        |
| Franz Struzl              | 6*                        |

\* Helmut Wieser and Franz Struzl were elected to the Board of Directors at the Annual General Shareholders' Meeting on June 3, 2011.

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

## REMUNERATION AND COMPENSATION TO BOARD OF DIRECTORS MEMBERS IN 2011, US\$ million

| Item                               | 2011       |
|------------------------------------|------------|
| Remuneration                       | 1.8        |
| <b>Total paid to Board Members</b> | <b>1.9</b> |

Note: paid in 2011 calendar year

## BOARD OF DIRECTORS COMMITTEES

For the purposes of handling certain aspects of NLMK Group business, and in accordance with the Board of Directors Regulations, the Board of Directors has established the following standing committees:

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

## STRATEGIC PLANNING COMMITTEE

**Oleg Bagrin,**  
Chairman of the Strategic  
Planning Committee (since 2010)

### Members\*:

- Vladimir Lisin;
- Vladimir Skorokhodov;
- Karl Doering;
- Bruno Bolfo;
- Karen Sarkisov;
- Helmut Wieser (since June 2011); and
- Franz Struzl (since June 2011)

(All are members of the Board of Directors);

- Alexey Lapshin, NLMK President (Chairman of the Management Board)

\*As of December 31, 2011

"Our strategy is aimed at sustaining the trust of our shareholders by delivering consistently high financial performance and transparent business principles."

## BOARD OF DIRECTORS' INVOLVEMENT IN RISK MANAGEMENT

The Board of Directors assesses strategic risks by identifying Company strengths, weaknesses, opportunities and threats, and approves internal control procedures used for risk management.

The Board also supervises compliance with these controls, reviews their effectiveness and encourages their improvement.

## DIRECTORS' REMUNERATION AND COMPENSATION

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

Criteria for remunerating Directors and providing reimbursement of their expenses are defined in the NLMK Director Remuneration Policy – a revised version of which was approved by the Extraordinary General Meeting of Shareholders on 29.09.2011. Changes made to the Policy are aimed at improving the BoD remuneration system, based on best practices that take into account the level of involvement of individual members in BoD activities and the work of the Committees. For instance, remuneration for participation in the BoD was doubled; new items were added on bonuses for participating in the BoD committees.

Based on Company performance in a given fiscal year, the Annual General Meeting of Shareholders, acting on the advice of the Human Resources, Remuneration and Social Policies Committee, may decide to pay a bonus to each Director equal to within 0.1% of the NLMK Group net profits for the reported period, as determined in accordance with the Generally Accepted Accounting Principles (US GAAP). Directors who have failed to attend more than half of the Board of Directors Meetings during their tenure are not eligible to receive an annual performance bonus.

## 2. EFFICIENCY

### Board of Directors activities in 2011

In 2011 the NLMK Board of Directors held ten meetings (seven meetings were held in the form of absentee voting).

In 2011 the NLMK Board of Directors reviewed the following key issues:

- Proposals for the agenda of the Annual General Meeting of Shareholders;
- Convocation and holding of the General Meeting of NLMK Shareholders based on 2010 results and the Extraordinary General Meeting of Shareholders;
- Election of the Chairman of the Board of Directors and Deputy Chairman of the Board of Directors, appointment of the Corporate Secretary, establishment of Board committees;
- Participation of NLMK in other companies;
- Review and approval of NLMK internal instruments;
- Approval of decision to issue and sell bonds, approval of reports on issue results;
- Approval of budgets for NLMK and NLMK Group companies;
- Approval of transactions with related parties; and
- Approval of fee payable to NLMK External Auditor.

### ROLE OF THE COMMITTEE

The Strategic Planning Committee drafts and submits recommendations to the Board regarding the Company's long-term development strategy, areas of activity and projects that ensure the achievement of strategic objectives.

### PROGRESS IN 2011

In 2011 the Strategic Planning Committee held 9 meetings (2 in the form of absentee voting). The Committee continued its structured activities on updating the Group's long-term strategy that has to be finalised and presented to the Board of Directors in 2012. As part of these efforts, decisions on the following issues were made:

- The Group's product and regional development strategy;
- Areas of development for divisions, companies and operating units;
- Investment projects as part of the development areas.

## AUDIT COMMITTEE

**Franz Struzl,**  
Chairman of the  
Audit Committee  
(since June 2011)

### Members\*:

- Oleg Bagrin; and
- Karl Doering



\*As of December 31, 2011

"It is a core objective of the Board of directors to perform its governance functions in good faith and in a competent manner creating shareholder value, as well as safeguarding the rights of shareholders by providing them with the opportunity to exercise their rights."

### ROLE OF THE COMMITTEE

This Committee drafts and submits to the Board recommendations regarding the efficient supervision of the financial and business activities of the Company, including annual external audits of financial statements, the quality of services provided by the external auditor and compliance with the requirements for external auditor independence.

### PROGRESS IN 2011

In 2011 the Audit Committee held four meetings. Decisions and implementation actions were approved on the following issues:

- Recommendations for the Annual General Meeting of Shareholders to approve NLMK's RAS financial (accounting) statements for 2010 developed and submitted to the Board of Directors;
- Draft auditor's report by the NLMK Group External Auditor with respect to NLMK Group's RAS financial (accounting) statements for 2010 developed and approved. Proposal submitted to NLMK's Board of Directors on the approval of the auditor's report as material for the Annual General Shareholders' Meeting;
- Proposal developed for NLMK's Board of Directors on recommendations for the Annual General Meeting of Shareholders regarding the NLMK's External Auditor for 2011 and their fees;
- Recommendations for the Annual General Meeting of Shareholders to approve NLMK's US GAAP condensed consolidated financial statements for 2010 developed and submitted to the Board of Directors;
- NLMK's US GAAP condensed consolidated interim financial statements for Q1, H1 and 9M of 2011 reviewed and approved;
- Proposals reviewed to accelerate the preparation of NLMK's US GAAP consolidated financial statements;
- Report on the activities of NLMK's Internal Audit Directorate in 2010 reviewed. Instructions given to NLMK management to improve the Company's internal control system in terms of identifying and preventing unethical practices, abuse and fraud on the part of the Group's employees and counteragents;
- Programme on financial risk management approved for 2011;
- Higher level of information disclosure in auditor fees approved.

## HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICIES COMMITTEE

**Vladimir Lisin,**  
Chairman of the Human  
Resources, Remuneration  
and Social Policies  
Committee (since 2010)

### Members\*:

- Nikolay Gagarin;
- Karen Sarkisov;
- Alexey Lapshin;
- Stanislav Tsyrlin; and
- Sergei Melnik



\*As of December 31, 2011

"As head of the HR Committee of our Board of Directors, I personally attend to our personnel strategy. The Company's people are the key component of its success, and in turn, the Company's success has a direct impact on its employees, through professional training and career development, wage rises based on improved efficiency, and better working conditions."

**Vladimir Lisin,** Chairman of the Human Resources, Remuneration and Social Policies Committee

### ROLE OF THE COMMITTEE

The primary purpose of the Human Resources, Remuneration and Social Policies Committee is the development of draft guidance regarding Company personnel policies and remuneration policies for officers of the Company executive authorities and members of the Internal Audit Commission. The Committee also reviews issues pertaining to company social policies, environmental safety and Federal and municipal government relations.

### PROGRESS IN 2011

In 2011 the Human Resources, Remuneration and Social Policies Committee held five meetings (including 1 in the form of absentee voting) to discuss the following key issues:

- Implementation of a system to improve the operating efficiency at Novolipetsk;

- Development of a single end-to-end Personnel Training and Development Programme;
- Prospects for creating a professional standard for the sector on developing new education programmes that would reflect modern qualification requirements for steelmaking personnel;
- Proposals on nominees for Independent Directors of NLMK's Board of Directors;
- Proposals on amount of remuneration to members of NLMK's Board of Directors in 2010;
- Approval of nominees to the positions of Vice-President, Heads of key business units, General Directors of Affiliates.

- Dmitry Baranov, Vice-President, Sales.
- Alexander Gorshkov, Vice-President, Head of Iron Ore Division.
- Yury Larin, Vice-President, Development and Environment.
- Alexander Saprykin, Vice-President, Head of Coal Division.
- Stanislav Tsyrlin, Vice-President, HR and Management System.

**84** FOR MORE INFORMATION ON OUR TOP MANAGERS' BIOGRAPHIES

### MANAGEMENT BOARD ACTIVITIES IN 2011

In 2011 the Management Board held 38 meetings (ten of which were held in the form of absentee voting) to discuss the following key issues:

- Recommendations to the Board of Directors (on issues related to budget approval, approval of related party transactions, NLMK bond issue and placement), as well as to the management bodies of significant subsidiaries and affiliates;
- Review of NLMK's draft 2010 Annual Report and annual financial statements, including the profit and loss statement;
- Approval of draft resolutions on issues within the competence of the General Participants' Meeting in companies where NLMK is the sole participant;
- Participation by NLMK in tenders to acquire rights to use mineral resources;
- Company membership and termination of membership in other companies;
- Approval of the list of significant subsidiaries and affiliates;
- Progress of Phase 2 of the Technical Upgrade and Development Programme;
- Development and implementation of an Integrated Risk Management System;
- NLMK Group's consolidated financial results and consolidated budget execution.

The table below shows attendance at Management Board meetings by Members of the Management Board in 2011:

| Management Board Member | Participation in meetings |
|-------------------------|---------------------------|
| Alexey Lapshin          | 38                        |
| Igor Anisimov           | 34                        |
| Galina Aglyamova        | 37                        |
| Dmitry Baranov          | 38                        |
| Alexander Gorshkov      | 38                        |
| Yury Larin              | 36                        |
| Alexander Saprykin      | 37                        |
| Stanislav Tsyrlin       | 34                        |

### REMUNERATION AND COMPENSATION TO MANAGEMENT BOARD MEMBERS

In accordance with the NLMK Management Board Regulations, Members of the Management Board are entitled to remuneration and reimbursement of expenses incurred in connection with the performance of their duties as members of the Management Board during their tenure.

The terms and conditions for remunerating Members of the Management Board are defined by contracts executed with the Management Board Members in accordance with the Regulations for Management Board Member Remuneration approved by the NLMK Board of Directors, acting on the advice of the Human Resources, Remuneration and Social Policies Committee. This remuneration is paid in cash.

### REMUNERATION AND COMPENSATION PAID TO MANAGEMENT BOARD MEMBERS IN 2011, US\$ million

| Item                              | 2011       |
|-----------------------------------|------------|
| <b>Total remuneration</b>         | <b>5.8</b> |
| Including base salary and bonuses | 5.7        |
| Other                             | 0.6        |

Note: paid during the calendar year

### COMPANY SHARES OWNED BY THE MANAGEMENT BOARD MEMBERS

| Member of the Management Board | Ownership as at the end of December 2011 |
|--------------------------------|--|
| Alexey Lapshin                 | None                                     |
| Galina Aglyamova               | 0,00017%                                 |
| Igor Anisimov                  | 0,0017%                                  |
| Dmitry Baranov                 | None                                     |
| Alexander Gorshkov             | None                                     |
| Yury Larin                     | 0,00083%                                 |
| Alexander Saprykin             | None                                     |
| Stanislav Tsyrlin              | None                                     |

### COMPANY POLICY ON RELATED PARTY TRANSACTIONS

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

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

### MANAGEMENT BOARD

The President (Chairman of the Management Board) manages the day-to-day activities of the Company as the sole executive authority while the Management Board act as the plural executive authority.

The Management Board is guided by the following principles:

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

### MEMBERS OF THE MANAGEMENT BOARD

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

The President is elected at the General Meeting of Shareholders and serves until the next Annual General Meeting, unless otherwise determined by the General Meeting of Shareholders. Mr Alexey Lapshin has been President of NLMK since 2006. He was re-elected for a new term on June 3, 2011.

As of December 31, 2011, the Management Board also includes:

- Igor Anisimov, Deputy Chairman of the Management Board, Senior Vice-President, General Director.
- Galina Aglyamova, Vice-President, CFO.

### SHAREHOLDER RELATIONS/DISCLOSURES

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

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

The Company maintains a Corporate Secretary, who is responsible for safeguarding the rights and interests of shareholders, including the establishment of effective and transparent arrangements for securing the rights of shareholders. The Corporate Secretary's responsibilities include securing compliance by the Company, its management bodies and officers with the law and the Company's Charter and internal documents. The Corporate Secretary organises the communication process between the parties to corporate relations, including the preparation and holding of General Meetings and meetings of the Company's Board of Directors; storage, maintenance and dissemination of information about the Company and reviewing communications from shareholders.



#### Publications

NLMK remains among the most transparent companies in the industry, regularly publishing its operating and financial results, including US GAAP financial statements.

NLMK's goal is to comply with the best international information disclosure and corporate reporting practices, improving its investment appeal.

The Company has also developed an Investor and Shareholder Relations Programme, managed by the Director of External Relations. Members of the Board of Directors and top managers participate in regular meetings with our existing and potential investors, during the course of which NLMK representatives inform them of the Company's strategic areas of development, in addition to taking into account shareholders' opinions on key strategic matters when making important decisions.

The IR Department interacts with the investor community on a regular basis, reporting on the most important matters to NLMK's top management. The IR team maintains a continuous dialogue with the investor community by arranging teleconferences to discuss the Company's financial performance, one-on-one meetings and participation in international conferences. The Company also organises regular visits to its production facilities thus providing investors with an opportunity to see the Company's production assets first-hand and to meet top management.

### THE ANNUAL GENERAL MEETING

Shareholders of NLMK, being the owners of the shares, have a set of rights exercised both by shareholders and through their proxies by means of participation in the work of general meetings with the right to vote on all issues referred to the competence of the said meetings.

The AGM reviews issues on the election of the Board of Directors, the President (Chairman of the Management Board), the Audit Commission, approval of the Auditor of the Company, approval of annual reports, the distribution of Company's profits, as well as other issues within the competence of the AGM. Shareholder meetings held besides the AGM are extraordinary.

The Annual Meeting of NLMK Shareholders for FY2010 was held on June 3, 2011 to discuss the following items:

- Election of the Company's managing and supervisory authorities;
- Approval of restated internal instruments;
- Approval of the 2010 NLMK Annual Report;
- Declaration of dividends for 2010;
- Approval of PricewaterhouseCoopers Audit as NLMK's external auditor; and
- Payment of compensation to members of the NLMK Board of Directors.

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

The Extraordinary General Meeting of NLMK Shareholders held on September 29, 2011 approved the payment of dividends for the first semester of 2011 and the restated internal instruments.

### SUPERVISORY AUTHORITIES: INTERNAL AUDIT COMMISSION AND EXTERNAL AUDITORS

#### Internal Audit Commission

The Internal Audit Commission is a full-time internal control authority exercising continuous supervision over the financial and business activities of the Company in order to obtain adequate assurance that Company operations comply with applicable Russian Federation laws and do not infringe upon the rights of Company shareholders, and that the Company reports and accounts contain no material misstatements.

The Internal Audit Commission acts in the interests of the shareholders and is elected by the General Meeting of Shareholders for a term of one year. The report of the Internal Audit Commission is an integral part of the NLMK Group RAS financial statements. The Internal Audit Commission acts in the interests of the shareholders and reports to the General Meeting of Shareholders.

The incumbent Internal Audit Commission was elected by the General Meeting of Shareholders on June 3, 2011 and includes the following members:

- Liudmila Kladienko,
- Valery Kulikov, Chairman
- Sergey Nesmeyanov,
- Larissa Ovsyannikova, and
- Galina Shipilova.

#### External auditors

The General Meeting of Shareholders of NLMK appoints an external auditor on an annual basis to review the financial and operating performance of the Company. The Audit Committee drafts proposals for the Board of Directors regarding the nomination of the external auditor of the Company, selected from a list of recognised independent auditors of high professional repute.

While drafting its proposals, the Audit Committee is guided by the following principles:

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

In 2011 the Annual General Meeting of Shareholders of NLMK approved ZAO PricewaterhouseCoopers Audit as the External Auditor for the purposes of auditing NLMK's RAS and US GAAP financial statements.

**ORDINARY SHARES**

The share capital of the Company is divided into 5,993,227,240 shares with a par value of RUB1. NLMK shares are listed on the Russian stock exchange (RTS-MICEX), and are also traded on the London Stock Exchange (LSE) in the form of Global Depository Shares (GDS) (1 GDS equals 10 ordinary shares).

**COMPANY'S SHARES LISTINGS**

|                            |      |
|----------------------------|------|
| RTS (Moscow) Ticker Code   | NLMK |
| MICEX (Moscow) Ticker Code | NLMK |
| LSE (London) Ticker Code   | NLMK |
| Bloomberg Ticker Code      | NLMK |
| Reuters Ticker Code        | NLMK |

**GLOBAL DEPOSITORY SHARES (GDS)**

One Global Depository Share equals 10 ordinary shares. As of December 31, 2011 the Global Depository Shares issued by NLMK Group and traded on the London Stock Exchange account for 7.83% of share capital. As of December 31, 2011 GDSs were trading at US\$19.6.

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

**SHARE PRICE**

**Ordinary shares on RTS (Moscow)**

|                                       | 2010 | 2011         |
|---------------------------------------|------|--------------|
| Maximum, US\$/share                   | 4.53 | <b>4.37</b>  |
| Minimum, US\$/share                   | 2.60 | <b>1.95</b>  |
| As at the end of the year, US\$/share | 4.53 | <b>1.95</b>  |
| Number of trades                      | 119  | <b>7,674</b> |
| Volume of trade, million US\$         | 2.41 | <b>2.32</b>  |

**NLMK ordinary shares on MICEX**

|                                      | 2010    | 2011             |
|--------------------------------------|---------|------------------|
| Maximum, RUB/share                   | 144.67  | <b>146.53</b>    |
| Minimum, RUB/share                   | 80.16   | <b>60.13</b>     |
| As at the end of the year, RUB/share | 144.67  | <b>62.87</b>     |
| Number of trades                     | 344,724 | <b>1,698,239</b> |
| Volume of trade, million RUB         | 17,300  | <b>80,742</b>    |

Note: Ordinary shares of NLMK were accepted to trade on MICEX on April 6, 2006.

**NLMK Global Depository Shares on the London Stock Exchange**

|                                       | 2010  | 2011         |
|---------------------------------------|-------|--------------|
| Maximum, US\$/share                   | 47.7  | <b>51.0</b>  |
| Minimum, US\$/share                   | 25.0  | <b>18.4</b>  |
| As at the end of the year, US\$/share | 47.7  | <b>19.6</b>  |
| Volume of trade, million US\$         | 3,214 | <b>5,425</b> |

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

**MARKET CAPITALISATION**

During the first six months of 2011 the NLMK Group market cap showed positive upward momentum. But, following sharp deterioration in the global markets across all the sectors largely driven by recession in the developed markets, the Company's market cap declined. In late 2011 shares were trading on the London Stock Exchange at around US\$2 per share (US\$19.6 per GDS), consistent with a market capitalisation of US\$1.2 billion. Market cap reflected general trends common to the global steel sector.

**TAXATION**

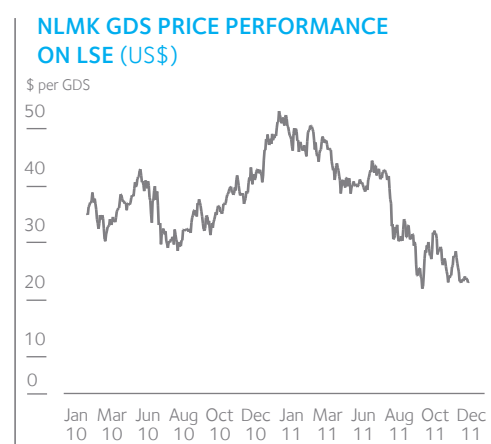
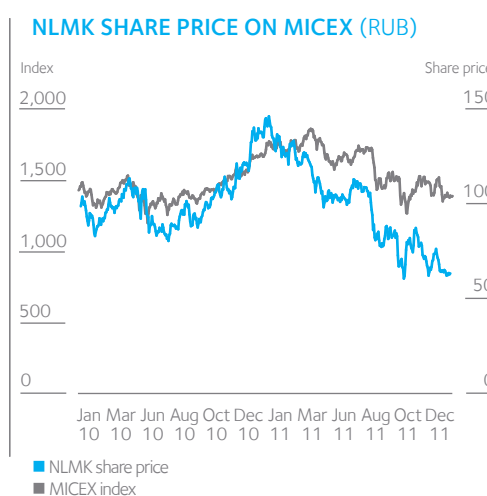
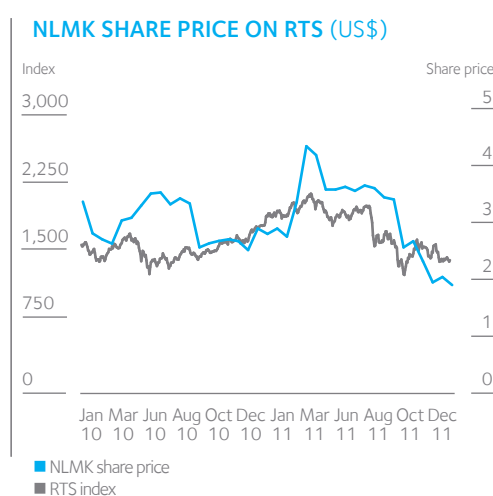
The statutory rate of taxation of dividends in Russia for corporate shareholders is 9% for residents of the Russian Federation and 15% for non-residents. For individuals, the rates are also 9% and 15%, respectively (the tax rate applies from January 1, 2008). Wherever an avoidance of double taxation treaty is in effect, taxes are assessed at the rate defined by the treaty.

Note: Taxation information is provided for general information only. Potential and existing investors should consult their advisors on taxation implications for investments in Company shares, including Global Depository Shares (GDS).

**DIVIDENDS**

**Dividend policy**

The Company's dividend policy was approved as amended in June 2011 and aims to offer clear guidance to shareholders and all parties concerned about the Company's strategy with respect to the distribution and use of NLMK net profits. The Dividend Policy states that dividends shall be no less than 20% of net profit as defined in accordance with US GAAP provided that sustainability of the financial standing



and platform for further development of the Company are ensured. Moreover, NLMK targets an average dividend payout of at least 30% of net profit as defined in accordance with US GAAP.

Net gains from the disposal of financial investments in equities, which do not offer significant influence or control over their issuers, may in their full amount be directed to payment of dividends provided there is no need to raise cash for investment purposes.

The amount of dividends payable for the defined period as proposed by the Board of Directors shall be approved by shareholders and depends, among others, on the financial standing of the Company, its performance, cash flow, outlook, overall economic environment and other considerations.

Declared dividends are paid to shareholders within 60 days of the date of their declaration, unless a decision made at the General Meeting of Shareholders approving dividend payments stipulates a shorter timeframe.

**Dividends payable to GDS holders**

Any dividends payable on share ownership which is certified by Global Depository Shares shall be declared and paid to the Depository Bank in Russian roubles or foreign currency, and shall be converted by the Depository into US dollars (whenever dividends are paid in any currency other than US dollars) and distributed to GDS holders net of Depository Bank fees and expenses.

**Proposals regarding distribution of profits**

|   |                |
|---|----------------|
| Ordinary shares issued  | 5,993,227,240  |
| Dividends per ordinary share with par value of RUB1, RUB (projected) <sup>1</sup> | 2.0            |
| Total dividends payable for 2011, RUB (projected) <sup>1</sup>                    | 11,986,454,480 |

The Board of Directors has recommended that the General Shareholders' Meeting declare dividends for 2011 in the amount of RUB2.0 in cash per ordinary share.

<sup>1</sup> Amount of dividends for 2011 is subject to approval at the Annual Shareholders' Meeting that will be held in May 2012.

Taking into account the previously paid interim dividends of RUB1.4 per ordinary share approved at the Shareholders' Meeting in September 2011, additional payment for 2011 will amount to RUB0.6 per ordinary share.

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

**SHARE CAPITAL STRUCTURE AS OF DECEMBER 31, 2011**

| Shareholders  | Share, % |
|---|----------|
| Fletcher Group Holdings Limited   | 85.54    |
| Deutsche Bank Trust Company Americas (global depository shares traded on London Stock Exchange)                             | 7.83     |
| Other shareholders (including shares traded on Russian stock exchanges and companies beneficially owned by NLMK management) | 6.63     |

**CORPORATE DOCUMENTS**

The Company's corporate documents, including its Charter, can be found on the Company website: [www.nlmk.com](http://www.nlmk.com).

**Financial reporting**

The Company posts notices of results on the LSE website via the Regulatory News Service (RNS), publishes them on its website as press-releases and distributes them among the media.

The Company publishes its financial results on a quarterly basis.

The Company's Annual Report is published digitally on its website, [www.nlmk.com](http://www.nlmk.com), on the day of its official publication, which the Company announces in a special press-release.

Our Annual Report in hardcopy is available upon request from the Shareholder Register's office and our PR consultants in London.



**NLMK's Annual Report receives awards in two national contests**

NLMK's 2010 Annual Report has brought home multiple awards from recent national contests.

NLMK was recognised in five categories at the 14th Yearly Federal Contest of Annual Reports and Corporate Websites organised by "Securities Market" magazine and Investor.ru in cooperation with the Federal Service for Financial Markets:

- Best all-round representation – 1<sup>st</sup> place;
- Best interactive annual report – 1<sup>st</sup> place;
- Best level of information disclosure in an issuer's annual report – 2<sup>nd</sup> place;
- Best annual report in the metals and mining sector;
- Best annual report among Central Federal District public companies.

NLMK also won two categories in the 14th Yearly Federal Contest of Annual Reports organised by the RTS and MICEX Stock Exchanges, where the Annual Report was named:

- Best presentation of the company's investment case in an annual report;
- Best annual report among Central Federal District companies.

The high esteem in which NLMK's Annual Report is held confirms the efficiency of its approach to interacting with all stakeholders, including shareholders and investors.



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

## DIVIDEND HISTORY

| Year |                                    | Dividend per share <sup>2</sup>     | Declaration date | Total amount of dividend declared    | Dividend /net income |
|------|------------------------------------|-------------------------------------|------------------|--------------------------------------|----------------------|
| 2002 | Full year                          | RUB312.5 (US\$10.3010)              | 27.06.2003       | RUB1,871,012,500<br>US\$61.675 m     | 18%                  |
| 2003 | Full year                          | RUB0.6045 <sup>3</sup> (US\$0.0208) | 25.06.2004       | RUB3,622,905,867<br>US\$124.834 m    | 19%                  |
| 2004 | Full year                          | RUB1.8 (US\$0.0643)                 | 20.05.2005       | RUB10,787,809,032<br>US\$385.556 m   | 22%                  |
|      | Included 9 month interim           | RUB1 (US\$0.0357)                   | 03.12.2004       | RUB5,993,227,240<br>US\$214.081 m    |                      |
| 2005 | Full year                          | RUB3 (US\$0.1101)                   | 06.06.2006       | RUB17,979,681,720<br>US\$659.573 m   | 48%                  |
|      | Included 6 month interim           | RUB1 (US\$0.0352)                   | 26.09.2005       | RUB5,993,227,240<br>US\$210.792 m    |                      |
| 2006 | Full year                          | RUB3 (US\$0.1140)                   | 05.06.2007       | RUB17,979,681,720<br>US\$683.266 m   | 33%                  |
|      | Included 6 months interim          | RUB1.5 (US\$0.0561)                 | 29.09.2006       | RUB8,989,840,860<br>US\$336.071 m    |                      |
| 2007 | Full year                          | RUB3 (US\$0.1231)                   | 06.06.2008       | RUB17,979,681,720<br>US\$737.682 m   | 33%                  |
|      | Included 6 months interim          | RUB1.5 (US\$0.0601)                 | 28.09.2007       | RUB8,989,840,860<br>US\$360.142 m    |                      |
| 2008 | Full year                          | RUB2 (US\$0.0786)                   | 05.06.2009       | RUB11,986,454,480<br>US\$471.338 m   | 21%                  |
|      | Included 6 months interim          | RUB2 (US\$0.0786)                   | 19.09.2008       | RUB11,986,454,480<br>US\$471.338 m   |                      |
| 2009 | Full year                          | RUB0.22 (US\$0.0071)                | 04.06.2010       | RUB1,318,509,992.80<br>US\$42.679 m  | 20%                  |
| 2010 | Full year                          | RUB1.82 (US\$0.0632)                | 03.06.2011       | RUB10,907,673,576.80<br>US\$378.7 m  | 30%                  |
|      | Included 6 months interim          | RUB0.62 (US\$0.0204)                | 30.09.2010       | RUB3,715,800,888.80<br>US\$122.218 m |                      |
| 2011 | Full year (projected) <sup>1</sup> | RUB2.0 (US\$0.0642)                 |                  | RUB11,986,454,480<br>US\$385.042 m   | 28%                  |
|      | Included 6 months interim          | RUB1.4 (US\$0.0440)                 | 29.09.2011       | RUB8,390,518,136<br>US\$263.704 m    |                      |

<sup>1</sup> Amount of dividends for 2011 is subject to approval at the Annual Shareholders' Meeting that will be held in May 2012.

<sup>2</sup> The dividends were declared in Russian roubles (RUB). The amount of dividends per share indicated in US dollars are based on the RUB/US\$ Central Bank exchange rate as at the date of dividends approval; for 2011 the amount of interim dividends is based on the RUB/ US\$ exchange rate as at the date of their approval at the Annual Shareholders' Meeting (September 29, 2011), and the amount of additional dividends is based on the RUB/ US\$ exchange rate as at the date of their recommendation by the Board of Directors (April 10, 2012).

<sup>3</sup> In May 2004, following a revaluation of fixed assets, NLMK issued 5,987,240,000 additional common shares with a par value of RUB1 each. Prior to this issue, NLMK's share capital comprised 5,987,240 common shares. These additional common shares were distributed to all existing shareholders of NLMK in proportion to their shareholding at the date of distribution such that each eligible shareholder received 1,000 additional shares for each share held.

# FINANCIAL STATEMENTS

## IN THIS SECTION

### 96 RESPONSIBILITY STATEMENT AND REPORT OF INDEPENDENT AUDITORS

Internal and external verification of the Annual Report and Accounts 2011.

### 97 CONSOLIDATED FINANCIAL STATEMENTS

Detailed financial information for the Group.

### 102 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The notes in relation to the consolidated financial statements.



## CREATING VALUE THROUGH INTEGRATION

“My team is proud to have the opportunity to develop and implement innovative, environmentally friendly technologies within the production facilities of an industry leader, a key component of NLMK’s strategy of development and innovation.”

Jérôme Chillan,  
Production,  
NLMK La Louvière

# CONSOLIDATED FINANCIAL STATEMENTS: RESPONSIBILITY STATEMENT AND REPORT OF INDEPENDENT AUDITORS



## Responsibility Statement

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

1. Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with US GAAP, as of December 31, 2011, 2010 and 2009, and also for the years ended on those dates, within balance sheets, profit and loss statements, cash flow statements, equity statements and the statements on the total income of shareholders and notes to the consolidated financial statements.

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

2. The completeness and correctness of the information submitted in the NLMK Group Annual Report for 2011, specifically the information on the operational results of NLMK Group, the results of its strategic development, risks and events which in the near future may have impact on the operations of the Group.

The Company management confirms that the operational and financial indices fully reflect the outcome of NLMK Group's operations in 2011 and main changes regarding the previous periods as well as give a comprehensive representation on the development of NLMK and its subsidiaries and dependent companies.

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

**A. Lapshin**

President (Chairman of the Management Board), NLMK

## Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries (the "Group") as of December 31, 2011, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink, appearing to read 'ZAD PricewaterhouseCoopers Audit', written in a cursive style.

**March 24, 2012**

# CONSOLIDATED FINANCIAL STATEMENTS: CONSOLIDATED BALANCE SHEETS

as at December 31, 2011, 2010 and 2009  
(All amounts in thousands of US dollars, except for share data)

|   | Note  | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|---|-------|----------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>   |       |                            |                            |                            |
| <b>Current assets</b>   |       |                            |                            |                            |
| Cash and cash equivalents   | 4     | 797,169                    | 747,979                    | 1,247,048                  |
| Short-term investments  | 5     | 227,279                    | 422,643                    | 451,910                    |
| Accounts receivable and advances given, net   | 6     | 1,572,641                  | 1,259,596                  | 913,192                    |
| Inventories, net  | 7     | 2,828,433                  | 1,580,068                  | 1,134,095                  |
| Other current assets  |       | 59,355                     | 51,994                     | 58,034                     |
| Deferred income tax assets  | 17    | 18,887                     | 43,069                     | 72,467                     |
|   |       | <b>5,503,764</b>           | <b>4,105,349</b>           | <b>3,876,746</b>           |
| <b>Non-current assets</b>   |       |                            |                            |                            |
| Long-term investments   | 5     | 8,420                      | 687,665                    | 468,236                    |
| Property, plant and equipment, net  | 8     | 10,569,828                 | 8,382,478                  | 7,316,180                  |
| Intangible assets, net  | 9(b)  | 158,611                    | 181,136                    | 203,490                    |
| Goodwill  | 9(a)  | 760,166                    | 494,654                    | 556,636                    |
| Deferred income tax assets  | 17    | 237,113                    | 21,387                     | 12,199                     |
| Other non-current assets  |       | 19,274                     | 26,356                     | 68,457                     |
|   |       | <b>11,753,412</b>          | <b>9,793,676</b>           | <b>8,625,198</b>           |
| <b>Total assets</b>   |       | <b>17,257,176</b>          | <b>13,899,025</b>          | <b>12,501,944</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |       |                            |                            |                            |
| <b>Current liabilities</b>  |       |                            |                            |                            |
| Accounts payable and other liabilities  | 10    | 1,622,679                  | 1,107,434                  | 841,230                    |
| Short-term borrowings   | 11    | 1,306,263                  | 525,559                    | 556,563                    |
| Current income tax liability  |       | 10,994                     | 18,803                     | 19,419                     |
|   |       | <b>2,939,936</b>           | <b>1,651,796</b>           | <b>1,417,212</b>           |
| <b>Non-current liabilities</b>  |       |                            |                            |                            |
| Deferred income tax liability   | 17    | 713,666                    | 400,601                    | 396,306                    |
| Long-term borrowings  | 11    | 3,073,535                  | 2,098,863                  | 1,938,652                  |
| Other long-term liabilities   | 12    | 424,878                    | 193,951                    | 139,906                    |
|   |       | <b>4,212,079</b>           | <b>2,693,415</b>           | <b>2,474,864</b>           |
| <b>Total liabilities</b>  |       | <b>7,152,015</b>           | <b>4,345,211</b>           | <b>3,892,076</b>           |
| <b>Commitments and contingencies</b>  |       |                            |                            |                            |
|   |       | -                          | -                          | -                          |
| <b>Stockholders' equity</b>   |       |                            |                            |                            |
| <b>NLMK stockholders' equity</b>  |       |                            |                            |                            |
| Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2011, 2010 and 2009 | 14(a) | 221,173                    | 221,173                    | 221,173                    |
| Statutory reserve   |       | 10,267                     | 10,267                     | 10,267                     |
| Additional paid-in capital  |       | 306,391                    | 98,752                     | 112,450                    |
| Accumulated other comprehensive loss  |       | (1,489,442)                | (916,901)                  | (796,756)                  |
| Retained earnings   |       | 11,098,635                 | 10,261,214                 | 9,171,068                  |
|   |       | <b>10,147,024</b>          | <b>9,674,505</b>           | <b>8,718,202</b>           |
| <b>Non-controlling interest</b>   | 13    | <b>(41,863)</b>            | <b>(120,691)</b>           | <b>(108,334)</b>           |
| <b>Total stockholders' equity</b>   |       | <b>10,105,161</b>          | <b>9,553,814</b>           | <b>8,609,868</b>           |
| <b>Total liabilities and stockholders' equity</b>   |       | <b>17,257,176</b>          | <b>13,899,025</b>          | <b>12,501,944</b>          |

The consolidated financial statements as set out on pages 97 to 123 were approved on March 24, 2012.

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

## FINANCIAL STATEMENTS: CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 2011, 2010 and 2009  
 (All amounts in thousands of US dollars, except for earnings per share amounts)

|   | Note  | For the year ended<br>December 31, 2011 | For the year ended<br>December 31, 2010 | For the year ended<br>December 31, 2009 |
|---|-------|---|---|---|
| <b>Revenue</b>  | 22    | <b>11,728,556</b>                       | <b>8,350,748</b>                        | <b>6,139,895</b>                        |
| <b>Cost of sales</b>  |       |   |   |   |
| Production cost   |       | (7,780,243)                             | (4,933,236)                             | (3,672,245)                             |
| Depreciation and amortization   |       | (588,707)                               | (469,418)                               | (478,117)                               |
|   |       | <b>(8,368,950)</b>                      | <b>(5,402,654)</b>                      | <b>(4,150,362)</b>                      |
| <b>Gross profit</b>   |       | <b>3,359,606</b>                        | <b>2,948,094</b>                        | <b>1,989,533</b>                        |
| General and administrative expenses                                   |       | (556,169)                               | (263,146)                               | (297,246)                               |
| Selling expenses  |       | (972,685)                               | (708,868)                               | (654,628)                               |
| Taxes other than income tax   |       | (165,073)                               | (123,311)                               | (102,076)                               |
| Impairment losses   | 9(a)  | –                                       | (58,179)                                | (43,662)                                |
| <b>Operating income</b>   |       | <b>1,665,679</b>                        | <b>1,794,590</b>                        | <b>891,921</b>                          |
| Loss on disposals of property, plant and equipment                    |       | (29,293)                                | (9,657)                                 | (4,420)                                 |
| Gains / (losses) on investments, net                                  |       | 11,922                                  | (27,991)                                | (10,903)                                |
| Interest income   |       | 29,531                                  | 45,071                                  | 59,733                                  |
| Interest expense  |       | –                                       | (15,865)                                | (170,905)                               |
| Foreign currency exchange gain / (loss), net                          |       | 18,662                                  | (59,262)                                | (78,026)                                |
| Other expenses, net   | 25(b) | (14,337)                                | (4,598)                                 | (92,661)                                |
| <b>Income before income tax</b>                                       |       | <b>1,682,164</b>                        | <b>1,722,288</b>                        | <b>594,739</b>                          |
| Income tax expense  | 17    | (421,034)                               | (390,972)                               | (181,784)                               |
| <b>Income, net of income tax</b>                                      |       | <b>1,261,130</b>                        | <b>1,331,316</b>                        | <b>412,955</b>                          |
| Equity in net earnings / (losses) of associates                       | 5     | 54,272                                  | (107,338)                               | (314,859)                               |
| <b>Net income</b>   |       | <b>1,315,402</b>                        | <b>1,223,978</b>                        | <b>98,096</b>                           |
| <b>Add: Net loss attributable to the non-controlling interest</b>     | 13    | <b>42,192</b>                           | <b>31,065</b>                           | <b>116,959</b>                          |
| <b>Net income attributable to NLMK stockholders</b>                   |       | <b>1,357,594</b>                        | <b>1,255,043</b>                        | <b>215,055</b>                          |
| <b>Income per share – basic and diluted:</b>                          |       |   |   |   |
| Net income attributable to NLMK stockholders per share (US dollars)   |       | 0.2265                                  | 0.2094                                  | 0.0359                                  |
| Weighted-average shares outstanding, basic and diluted (in thousands) | 16    | 5,993,227                               | 5,993,227                               | 5,993,227                               |

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

# FINANCIAL STATEMENTS: CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

|  | Note  | For the year ended<br>December 31, 2011 | For the year ended<br>December 31, 2010 | For the year ended<br>December 31, 2009 |
|--|-------|---|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |       |   |   |   |
| <b>Net income</b>  |       | <b>1,315,402</b>                        | <b>1,223,978</b>                        | <b>98,096</b>                           |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b>           |       |   |   |   |
| Depreciation and amortization  |       | 588,707                                 | 469,418                                 | 478,117                                 |
| Loss on disposals of property, plant and equipment   |       | 29,293                                  | 9,657                                   | 4,420                                   |
| (Gains) / losses on investments, net   |       | (11,922)                                | 27,991                                  | 10,903                                  |
| Equity in net (earnings) / losses of associates  | 5     | (54,272)                                | 107,338                                 | 314,859                                 |
| Deferred income tax expense  | 17    | 45,643                                  | 33,790                                  | 34,443                                  |
| Losses / (gains) on unrealized forward contracts   |       | 4,819                                   | (4,225)                                 | (470,930)                               |
| Impairment losses  | 9(a)  | –                                       | 58,179                                  | 43,662                                  |
| Other  |       | 24,967                                  | 99,735                                  | 21,825                                  |
| <b>Changes in operating assets and liabilities</b>   |       |   |   |   |
| Decrease / (increase) in accounts receivable   |       | 130,417                                 | (356,198)                               | 493,751                                 |
| (Increase) / decrease in inventories   |       | (368,932)                               | (458,033)                               | 331,396                                 |
| Decrease in other current assets   |       | 13,495                                  | 5,517                                   | 17,193                                  |
| Increase in accounts payable and other liabilities   |       | 97,616                                  | 213,979                                 | 10,534                                  |
| (Decrease) / increase in current income tax payable  |       | (10,118)                                | (29)                                    | 5,990                                   |
| <b>Net cash provided by operating activities</b>   |       | <b>1,805,115</b>                        | <b>1,431,097</b>                        | <b>1,394,259</b>                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |       |   |   |   |
| Purchases and construction of property, plant and equipment  |       | (2,047,852)                             | (1,463,209)                             | (1,120,777)                             |
| Proceeds from sale of property, plant and equipment  |       | 26,980                                  | 26,362                                  | 12,719                                  |
| Purchases of investments and placement of bank deposits  |       | (523,661)                               | (832,472)                               | (536,098)                               |
| Withdrawal of bank deposits, proceeds from sale of other investments and loans settled             |       | 717,539                                 | 450,255                                 | 510,336                                 |
| Payment for acquisition of interests in new subsidiaries net of cash acquired of \$112,806 in 2011 | 21(a) | (41,751)                                | –                                       | –                                       |
| Acquisitions of subsidiaries, net of cash acquired of \$22 in 2010                                 | 21(b) | –                                       | (28,363)                                | –                                       |
| Loans issued   |       | –                                       | –                                       | (403,592)                               |
| Settlement of abandoned acquisition  | 25(b) | –                                       | –                                       | (234,000)                               |
| <b>Net cash used in investing activities</b>   |       | <b>(1,868,745)</b>                      | <b>(1,847,427)</b>                      | <b>(1,771,412)</b>                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |       |   |   |   |
| Proceeds from borrowings and notes payable   |       | 1,967,362                               | 933,873                                 | 1,076,756                               |
| Repayment of borrowings and notes payable  |       | (1,683,536)                             | (802,143)                               | (1,540,242)                             |
| Capital lease payments   |       | (32,525)                                | (46,356)                                | (69,094)                                |
| Dividends to shareholders  |       | (516,335)                               | (164,501)                               | (1,981)                                 |
| Proceeds from disposal of assets to the entity under common control                                |       | 313,246                                 | –                                       | –                                       |
| Dividends to non-controlling shareholders of existing subsidiaries                                 |       | –                                       | –                                       | (127)                                   |
| <b>Net cash provided by / (used in) financing activities</b>                                       |       | <b>48,212</b>                           | <b>(79,127)</b>                         | <b>(534,688)</b>                        |
| <b>Net decrease in cash and cash equivalents</b>   |       | <b>(15,418)</b>                         | <b>(495,457)</b>                        | <b>(911,841)</b>                        |
| Effect of exchange rate changes on cash and cash equivalents                                       |       | 64,608                                  | (3,612)                                 | (1,100)                                 |
| Cash and cash equivalents at the beginning of the year   | 4     | 747,979                                 | 1,247,048                               | 2,159,989                               |
| Cash and cash equivalents at the end of the year   | 4     | <b>797,169</b>                          | <b>747,979</b>                          | <b>1,247,048</b>                        |

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

## FINANCIAL STATEMENTS: CONSOLIDATED STATEMENTS CASH FLOWS

for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

|   | Note | For the year ended<br>December 31, 2011 | For the year ended<br>December 31, 2010 | For the year ended<br>December 31, 2009 |
|---|------|---|---|---|
| <b>Supplemental disclosures of cash flow information:</b>   |      |   |   |   |
| <b>Cash paid during the year for:</b>   |      |   |   |   |
| Income tax  |      | 374,523                                 | 358,419                                 | 136,378                                 |
| Interest (excluding capitalized interest)   |      | –                                       | 15,865                                  | 170,702                                 |
| <b>Non cash investing activities:</b>   |      |   |   |   |
| Capital lease liabilities incurred  | 19   | 18,430                                  | 97,606                                  | 83,186                                  |
| Fair value of net assets acquired from third parties in new subsidiaries,<br>net of cash acquired of \$112,806 in 2011 and \$22 in 2010 | 21   | 464,511                                 | 28,363                                  | –                                       |

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

# FINANCIAL STATEMENTS: CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

|   | Note  | NLMK stockholders |                   |                            |                                      |                   | Non-controlling interest | Comprehensive income / (loss) | Total stockholders' equity |
|---|-------|-------------------|-------------------|----------------------------|--------------------------------------|-------------------|--------------------------|-------------------------------|----------------------------|
|   |       | Common stock      | Statutory reserve | Additional paid-in capital | Accumulated other comprehensive loss | Retained earnings |                          |                               |                            |
| <b>Balance at December 31, 2008</b>                               |       | <b>221,173</b>    | <b>10,267</b>     | <b>52,395</b>              | <b>(549,879)</b>                     | <b>8,956,013</b>  | <b>33,100</b>            | <b>-</b>                      | <b>8,723,069</b>           |
| <b>Comprehensive loss:</b>  |       |                   |                   |                            |                                      |                   |                          |                               |                            |
| Net income / (loss)   |       | -                 | -                 | -                          | -                                    | 215,055           | (116,959)                | 98,096                        | 98,096                     |
| Other comprehensive loss:   |       |                   |                   |                            |                                      |                   |                          |                               |                            |
| Cumulative translation adjustment                                 | 2(b)  | -                 | -                 | -                          | (246,877)                            | -                 | (9,583)                  | (256,460)                     | (256,460)                  |
| <b>Comprehensive loss</b>   |       |                   |                   |                            |                                      |                   |                          | <b>(158,364)</b>              | <b>(158,364)</b>           |
| Disposal of assets to the entity under common control             | 24(c) | -                 | -                 | 85,345                     | -                                    | -                 | (40,182)                 | -                             | 45,163                     |
| Change in non-controlling interest                                | 13    | -                 | -                 | (25,290)                   | -                                    | -                 | 25,290                   | -                             | -                          |
| <b>Balance at December 31, 2009</b>                               |       | <b>221,173</b>    | <b>10,267</b>     | <b>112,450</b>             | <b>(796,756)</b>                     | <b>9,171,068</b>  | <b>(108,334)</b>         | <b>-</b>                      | <b>8,609,868</b>           |
| <b>Comprehensive income:</b>                                      |       |                   |                   |                            |                                      |                   |                          |                               |                            |
| Net income / (loss)   |       | -                 | -                 | -                          | -                                    | 1,255,043         | (31,065)                 | 1,223,978                     | 1,223,978                  |
| Other comprehensive income:                                       |       |                   |                   |                            |                                      |                   |                          |                               |                            |
| Cumulative translation adjustment                                 | 2(b)  | -                 | -                 | -                          | (120,145)                            | -                 | 5,010                    | (115,135)                     | (115,135)                  |
| <b>Comprehensive income</b>                                       |       |                   |                   |                            |                                      |                   |                          | <b>1,108,843</b>              | <b>1,108,843</b>           |
| Change in non-controlling interest                                | 13    | -                 | -                 | (13,698)                   | -                                    | -                 | 13,698                   | -                             | -                          |
| Dividends to shareholders   | 14(b) | -                 | -                 | -                          | -                                    | (164,897)         | -                        | -                             | (164,897)                  |
| <b>Balance at December 31, 2010</b>                               |       | <b>221,173</b>    | <b>10,267</b>     | <b>98,752</b>              | <b>(916,901)</b>                     | <b>10,261,214</b> | <b>(120,691)</b>         | <b>-</b>                      | <b>9,553,814</b>           |
| <b>Comprehensive income:</b>                                      |       |                   |                   |                            |                                      |                   |                          |                               |                            |
| Net income / (loss)   |       | -                 | -                 | -                          | -                                    | 1,357,594         | (42,192)                 | 1,315,402                     | 1,315,402                  |
| <b>Other comprehensive income:</b>                                |       |                   |                   |                            |                                      |                   |                          |                               |                            |
| Cumulative translation adjustment                                 | 2(b)  | -                 | -                 | -                          | (572,541)                            | -                 | 4,991                    | (567,550)                     | (567,550)                  |
| <b>Comprehensive income</b>                                       |       |                   |                   |                            |                                      |                   |                          | <b>747,852</b>                | <b>747,852</b>             |
| Disposal of assets to the entity under common control             | 15    | -                 | -                 | 207,639                    | -                                    | -                 | -                        | -                             | 207,639                    |
| Change in non-controlling interest in deconsolidated subsidiaries |       | -                 | -                 | -                          | -                                    | -                 | 116,029                  | -                             | 116,029                    |
| Dividends to shareholders   | 14(b) | -                 | -                 | -                          | -                                    | (520,173)         | -                        | -                             | (520,173)                  |
| <b>Balance at December 31, 2011</b>                               |       | <b>221,173</b>    | <b>10,267</b>     | <b>306,391</b>             | <b>(1,489,442)</b>                   | <b>11,098,635</b> | <b>(41,863)</b>          | <b>-</b>                      | <b>10,105,161</b>          |

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

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 1 BACKGROUND

OJSC Novolipetsk Steel (the "Parent Company") and its subsidiaries (together – the "Group") is one of the world's leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent Company's name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group is one of the leading global suppliers of slabs and transformer steel and one of the leading suppliers to the domestic market of high value added products including pre-painted, galvanized and electrical steel as well as a variety of long steel products. The Group also operates in the mining segment (Note 22).

The Group's main operations are in the Russian Federation, the European Union and the USA and are subject to the legislative requirements of the subsidiaries' state and regional authorities.

The Group's primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, comprise:

- Mining companies OJSC Stoilensky GOK, OJSC Stagdok and OJSC Dolomite. The principal business activities of these companies are mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-Koks. The principal business activity of this company is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl. The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- LLC NLMK Long Products, OJSC NSMMZ and scrap collecting companies. The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.

The Group's major subsidiaries, located outside the Russian Federation, comprise:

- Steel Invest & Finance (Luxembourg) S.A. ("SIF S.A.") holds 100% interests or majority votes in 22 companies located in Europe and USA which include one steel making plant and five steel rolling facilities as well as a network of steel service centres (Note 21(a)).
- Danish steel rolling company NLMK DanSteel A/S. The principal business activity of this company is production of hot rolled plates.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. The principal business activity of these companies is sales of the Group's products outside the Russian Federation.
- American hot rolled coils producer NLMK Indiana. The principal business activity of this company is production of hot rolled steel.

## 2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

### (a) Basis of presentation

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group's companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

### (b) Functional and reporting currency

In accordance with the laws of the Russian Federation the accounting records of the Parent Company are maintained, and the Parent Company's statutory financial statements for its stockholders are prepared, in Russian rubles.

Functional currency of the majority of the Group entities is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of ASC No. 830, Foreign currency matters. As a result of these translation procedures, a cumulative translation adjustment of \$(567,550), \$(115,135) and \$(256,460) was recorded directly in stockholders' equity in the years ended December 31, 2011, 2010 and 2009, respectively.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2011, 2010 and 2009 were 1 US dollar to 32.1961, 30.4769 and 30.2442 Russian rubles, respectively. The period weighted average exchange rates for the 1 quarter 2011, 2 quarter 2011, 3 quarter 2011 and 4 quarter 2011 were 29.2695, 27.9857, 29.0461 and 31.2304 Russian rubles to 1 US dollar, respectively. The period weighted average exchange rates for the 1 quarter 2010, 2 quarter 2010, 3 quarter 2010 and 4 quarter 2010 were 29.8903, 30.2430, 30.6200 and 30.7117 Russian rubles to 1 US dollar, respectively. The period weighted average exchange rates for the 1 quarter 2009, 2 quarter 2009, 3 quarter 2009 and 4 quarter 2009 were 33.9308, 32.2145, 31.3276 and 29.4729 Russian rubles to 1 US dollar, respectively.

### (c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant intercompany accounts and transactions have been eliminated.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied by the Group from one reporting period to another with the exception of newly adopted accounting pronouncements.

#### (a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported.

Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

#### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks, bank deposits and other highly liquid short-term investments with original maturities of less than three months.

#### (c) Restricted cash

Restricted cash comprise funds legally or contractually restricted as to withdrawal.

#### (d) Accounts receivable and loans issued

Receivables and loans issued are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' and borrowers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognised as income.

#### (e) Value added tax (VAT)

Output value added tax related to sales of goods (work performance, services provision) is payable to the tax authorities upon delivery of the goods (work, services) or property rights to customers. Input VAT on goods and services purchased (received) is generally recoverable against output VAT. VAT related to sales / purchases and services provision / receipt which has not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately within current assets and current liabilities. Where a doubtful debt provision has been made, a loss is recorded for the gross amount of the debt, including VAT.

#### (f) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written-off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

The provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

#### (g) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities using three categories: trading, held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

#### Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

#### Held-to-maturity securities

Held-to-maturity securities are those securities which the Group has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

Premiums and discounts are amortized and recorded in the consolidated statement of income over the life of the related security held-to-maturity, as an adjustment to yield using the effective interest method.

#### Available-for-sale securities

All marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income in the stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, less tax, are determined on a specific identification basis. Dividend and interest income are recognised when earned.

#### (h) Investments in associates and non-marketable securities

##### Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

##### Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future, or under bankruptcy proceedings.

#### (i) Property, plant and equipment

##### Owned assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses (Note 3(l)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overheads directly related to construction of assets.

Property, plant and equipment also include assets under construction and plant and equipment awaiting installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

##### Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognised as expenses in the consolidated statement of income as incurred.

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### *Capitalized interest*

Interest costs are capitalized against qualifying assets as part of property, plant and equipment.

Such interest costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction is interrupted for an extended period or when the asset is substantially complete. Further interest costs are charged to the statement of income.

Where funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of interest costs eligible for capitalization on that asset is the actual interest cost incurred on the borrowing during the period.

Where funds are made available from general borrowings and used for the purpose of acquiring or constructing qualifying assets, the amount of interest costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on these assets.

### *Mineral rights*

Mineral rights acquired in business combinations are recorded in accordance with provisions of ASC No. 805, Business Combinations, ("ASC No. 805") at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by ASC No 930, *Extractive Activities – Mining*, ("ASC No. 930") subtopic 360, *Property, Plant and Equipment*.

### *Depreciation and amortization*

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated remaining useful lives of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of and land. The range of the estimated useful lives is as follows:

|                             |               |
|-----------------------------|---------------|
| Buildings and constructions | 20 – 45 years |
| Machinery and equipment     | 2 – 40 years  |
| Vehicles                    | 5 – 25 years  |

Mineral rights are amortized using the straight-line basis over the licence term given approximately even production during the period of licence.

### **(j) Leasing**

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions where the Group is the lessee are classified into capital leases and operating leases. In a capital lease, the Group receives the major portion of economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

### **(k) Goodwill**

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Under ASC No. 350, *Intangibles – Goodwill and Other*, ("ASC No. 350") goodwill is first assessed with regard to qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. It is required to calculate the fair value of a reporting unit only if a qualitative assessment indicates that it is more likely than not that its carrying amount is more than its fair value.

The impairment test under ASC No. 350 includes a two-step approach.

Under the first step, management compares fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount, if any, that the reporting unit's goodwill carrying value exceeds its "implied" fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit (both recognised and unrecognised) from the fair value of the reporting unit (as determined in the first step).

Prior to adoption of ASC No. 805, if the excess of the fair value of net assets acquired over purchase cost was determined as negative goodwill, and was allocated to the acquired non-current assets, except for deferred taxes, if any, until they were reduced to zero. After adoption of ASC No. 805, the excess of the fair value of net assets acquired over acquisition cost represents negative goodwill (or "bargain purchase") which is recognised as a gain in the consolidated statement of income during the period of the acquisition.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

### **(l) Impairment of long-lived assets**

Long-lived assets, such as property, plant and equipment, mineral rights and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognised for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets held for sale that meet certain criteria are measured at the lower of their carrying amount or fair value less cost to sell.

### **(m) Pension and post-retirement benefits other than pensions**

The Group follows the Pension and Social Insurance legislation of the Russian Federation and other countries where the Group operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Group maintains defined benefit pension and defined contribution plans that cover the majority of its employees in Europe. The plans cover statutory and voluntary obligations and include pensions, other post-retirement benefits, e.g. long-term severance benefits and some additional benefits (Note 12).

The Group's net obligation in respect of long-term severance indemnity funds and other post-employment pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods. Any unrecognised past service costs and the fair value of any plan assets are deducted. The obligation is calculated using the projected unit credit method and is discounted to its present value.

The Parent Company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund subsequently. As such, all these benefits are considered as made under a defined contribution plan and are expensed as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees of a number of the Group's companies on retirement depending on the employment period and the salary level of the individual employee. The scheme is considered as a defined benefit plan. The expected future obligations to the employees are assessed by the Group's management and accrued in the consolidated financial statements, however these are not material.

#### (n) Asset retirement obligations

The Group's land, buildings and equipment are subject to the provisions of ASC No. 410, *Asset Retirement and Environmental Obligations*. This ASC addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

The Group estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Group records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred.

The liability is accreted to its present value each period and the capitalized cost is depreciated in accordance with the Group's depreciation policies for property, plant and equipment. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate credit-adjusted risk-free rate.

#### (o) Borrowing activities

The Group's general-purpose funding is principally obtained from commercial paper and short-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

#### (p) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally recognised no later than completion of remedial feasibility studies. The Group companies accrue expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

#### (q) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period when a different tax rate is enacted.

Pursuant to the provisions of ASC No. 740, *Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income, the reversal of existing deferred tax liabilities and tax planning strategies in making this assessment.

The Group accounts for uncertain tax positions and reflects liabilities for unrecognised income tax benefits together with corresponding interest and penalties in the consolidated statement of income as income tax expense.

#### (r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

#### (s) Revenue recognition

##### *Goods sold*

Revenue from the sale of goods is recognised in the consolidated statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectability is reasonably assured.

##### *Interest income*

Interest income is recognised in the consolidated statement of income as it is earned.

#### (t) Shipping and handling

The Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with the delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. The portion of this expense in selling expenses in 2009–2011 varied from 84% to 88%.

#### (u) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and capitalized (Note 3(i)).

#### (v) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalents are defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognised as non-cash transactions.

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES *continued*

### (w) Segment reporting

According to ASC No.280, *Segment reporting*, segment reporting follows the internal organizational and reporting structure of the Group. The Group's organization comprises four reportable segments:

- steel segment, comprising production and sales of coke and steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- foreign rolled products, comprising production and sales of steel products in Europe and the US;
- long products segment, comprising a number of steel-production facilities combined in a single production system beginning from iron scrap collection and recycling to steel-making, production of long products, reinforcing rebar, and metalware;
- mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties;

and other segments, not reported separately in the consolidated financial statements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

### (x) Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated statements of income and comprehensive income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

### (y) Recent accounting standards

In December 2010, the FASB issued ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. The Group adopted ASU 2010-28 from January 1, 2011. The adoption of ASU 2010-28 did not have an impact on the Group's consolidated financial position and results of operations.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. The Group adopted ASU 2010-29 for business combinations occurred from January 1, 2011. The adoption of ASU 2010-29 did not have an impact on the Group's consolidated financial position and results of operations.

### New pronouncements

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 modifies the fair value measurement requirements and updates the wording to converge with IFRS. ASU 2011-04 becomes effective for the Group on January 1, 2012. Management is currently evaluating the potential impact of these changes on the Group's consolidated financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under these amendments an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These amendments eliminate the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 becomes effective for the Group on January 1, 2012. The Group believes the adoption of ASU 2011-05 will impact only the presentation of comprehensive income.

In September 2011, the FASB approved ASU 2011-08: *Testing Goodwill for Impairment – Intangibles – Goodwill and Other (Topic 350)*. The amendments in ASU 2011-08 will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Earlier adoption is permitted. The Group early adopted ASU 2011-08 from 1 October 2011. The Group management assessed qualitative factors for impairment of goodwill as at December 31, 2011 that indicated no need for further impairment testing.

In December 2011, the FASB issued ASU 2011-12: *Comprehensive Income (Topic 220)*. The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. Taking into account that Update 2011-05 will have not a significant impact on the Group's financial position and results of operations, the Update 2011-12 also will have no significant impact on the Group's financial position and results of operations.

**4 CASH AND CASH EQUIVALENTS**

|                             | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|-----------------------------|----------------------------|----------------------------|----------------------------|
| Cash – Russian rubles       | 54,448                     | 131,555                    | 79,793                     |
| Cash – US dollars           | 45,820                     | 117,343                    | 125,917                    |
| Cash – other currencies     | 66,561                     | 45,353                     | 64,197                     |
| Deposits – Russian rubles   | 173,644                    | 151,426                    | 208,514                    |
| Deposits – US dollars       | 290,854                    | 210,743                    | 729,092                    |
| Deposits – Euros            | 165,806                    | 91,147                     | 25,778                     |
| Deposits – other currencies | –                          | 3                          | 11,474                     |
| Other cash equivalents      | 36                         | 409                        | 2,283                      |
|                             | <b>797,169</b>             | <b>747,979</b>             | <b>1,247,048</b>           |

**5 INVESTMENTS**

Balance sheet classification of investments:

|  | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|--|----------------------------|----------------------------|----------------------------|
| <b>Short-term investments and current portion of long-term investments</b> |                            |                            |                            |
| Loans to related parties (Note 24(b))                                      | –                          | –                          | 433,171                    |
| Bank deposits  | 226,736                    | 405,784                    | 7,109                      |
| Other  | 543                        | 16,859                     | 11,630                     |
|  | <b>227,279</b>             | <b>422,643</b>             | <b>451,910</b>             |
| <b>Long-term investments</b>   |                            |                            |                            |
| Loans to related parties (Note 24(b))                                      | –                          | 515,264                    | 156,371                    |
| Investments in associates  | 7,786                      | 170,192                    | 311,514                    |
| Other  | 634                        | 2,209                      | 351                        |
|  | <b>8,420</b>               | <b>687,665</b>             | <b>468,236</b>             |
| <b>Total investments</b>   | <b>235,699</b>             | <b>1,110,308</b>           | <b>920,146</b>             |

*Investments in associates*

|  | As at December 31,<br>2011<br>Ownership | As at December 31,<br>2010<br>Ownership | As at December 31,<br>2009<br>Ownership | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|--|---|---|---|----------------------------|----------------------------|----------------------------|
| Steel Invest & Finance<br>(Luxembourg) S.A. (Note 21(a)) | 100.00%                                 | 50.00%                                  | 50.00%                                  | –                          | 164,009                    | 305,284                    |
| TBEA & NLMK (Shenyang)<br>Metal Product Co., Ltd.        | 50.00%                                  | 50.00%                                  | 50.00%                                  | 7,786                      | 6,183                      | 6,230                      |
|  |   |   |   | <b>7,786</b>               | <b>170,192</b>             | <b>311,514</b>             |

*Steel Invest & Finance (Luxembourg) S.A. shares*

In December 2006, the Group acquired 50% of the issued shares of SIF S.A. for \$805 million, previously accounted for by the Group under the equity method in line with a strategic partnership with the Duferco Group who held an equal participation in SIF S.A.'s share capital.

As at the acquisition date, the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to \$27,419 and was included in the value of investment in associate.

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 5 INVESTMENTS *continued*

Summarized financial information for SIF S.A. is as follows:

|                          | As at December 31,<br>2010 | As at December 31,<br>2009 |
|--------------------------|----------------------------|----------------------------|
| Current assets           | 1,538,560                  | 1,580,750                  |
| Non-current assets       | 1,239,440                  | 1,316,182                  |
| <b>Total assets</b>      | <b>2,778,000</b>           | <b>2,896,932</b>           |
| Current liabilities      | (1,368,598)                | (1,086,909)                |
| Non-current liabilities  | (1,528,189)                | (1,805,213)                |
| <b>Total liabilities</b> | <b>(2,896,787)</b>         | <b>(2,892,122)</b>         |
| <b>Equity</b>            | <b>(118,787)</b>           | <b>4,810</b>               |

The revenues and net loss of SIF S.A. for the year ended December 31, 2010 and 2009 amounted to \$2,820,699 and \$(136,908), \$2,047,806 and \$(619,557), respectively. The Group's share in SIF S.A. losses amounted to \$(107,338) and \$(314,859) for the years ended December 31, 2010 and 2009, respectively.

Information about the Group's operations with SIF S.A. and its subsidiary is disclosed in Note 24.

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group (Note 21(a)).

## 6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

|                                    | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|------------------------------------|----------------------------|----------------------------|----------------------------|
| Trade accounts receivable          | 944,250                    | 728,153                    | 619,722                    |
| Advances given to suppliers        | 154,622                    | 201,745                    | 91,858                     |
| VAT and other taxes receivable     | 511,118                    | 416,833                    | 365,466                    |
| Accounts receivable from employees | 2,799                      | 4,035                      | 3,407                      |
| Other accounts receivable          | 87,710                     | 148,964                    | 148,261                    |
|                                    | 1,700,499                  | 1,499,730                  | 1,228,714                  |
| Allowance for doubtful debts       | (127,858)                  | (240,134)                  | (315,522)                  |
|                                    | <b>1,572,641</b>           | <b>1,259,596</b>           | <b>913,192</b>             |

As at December 31, 2011, 2010 and 2009 accounts receivable of \$297,902, \$15,373 and nil, respectively, served as collateral for certain borrowings (Note 11).

As at December 31, 2011, 2010 and 2009, the Group had other accounts receivable of \$19,010, \$88,951 and \$126,705, respectively, from companies for which a 100% allowance was recorded.

## 7 INVENTORIES

|                                     | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|-------------------------------------|----------------------------|----------------------------|----------------------------|
| Raw materials                       | 1,215,944                  | 870,160                    | 613,940                    |
| Work in process                     | 685,472                    | 332,284                    | 219,455                    |
| Finished goods and goods for resale | 1,021,828                  | 445,961                    | 351,879                    |
|                                     | 2,923,244                  | 1,648,405                  | 1,185,274                  |
| Provision for obsolescence          | (94,811)                   | (68,337)                   | (51,179)                   |
|                                     | <b>2,828,433</b>           | <b>1,580,068</b>           | <b>1,134,095</b>           |

As at December 31, 2011, 2010 and 2009, inventories of \$641,654, \$27,898 and nil, respectively, served as collateral for certain borrowings (Note 11).

**8 PROPERTY, PLANT AND EQUIPMENT**

|   | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|---|----------------------------|----------------------------|----------------------------|
| Land  | 201,852                    | 154,225                    | 136,596                    |
| Mineral rights  | 522,577                    | 534,445                    | 512,106                    |
| Buildings   | 1,748,813                  | 1,532,788                  | 1,400,208                  |
| Land and buildings improvements   | 1,280,211                  | 1,322,321                  | 1,221,530                  |
| Machinery and equipment   | 7,336,243                  | 6,150,022                  | 5,850,662                  |
| Vehicles  | 324,953                    | 364,107                    | 345,213                    |
| Construction in progress and advances for construction and acquisition of property, plant and equipment | 4,630,558                  | 3,519,758                  | 2,817,937                  |
| Leased assets (Note 18)   | 125,897                    | 372,405                    | 328,204                    |
| Other   | 125,585                    | 72,168                     | 68,398                     |
|   | 16,296,689                 | 14,022,239                 | 12,680,854                 |
| Accumulated depreciation  | (5,726,861)                | (5,639,761)                | (5,364,674)                |
|   | <b>10,569,828</b>          | <b>8,382,478</b>           | <b>7,316,180</b>           |

In March 2011, the Group acquired a licence for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this licence as at December 31, 2011 is \$27,193.

In August 2005, the Group acquired a licence for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this licence as at December 31, 2011 is \$36,456.

The other mineral rights relate to the mining segment, and were acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at December 31, 2011 is \$205,544. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2011, 2010 and 2009, property, plant and equipment of \$541,928, \$19,654 and \$45,647 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are \$171,764, \$173,402 and \$29,693 for the years ended December 31, 2011, 2010 and 2009, respectively.

**9 GOODWILL AND INTANGIBLE ASSETS****(a) Goodwill**

|  |                |
|--|----------------|
| <b>Balance as at December 31, 2008</b> | <b>613,668</b> |
| Goodwill impairment                    | (43,662)       |
| Cumulative translation adjustment      | (13,370)       |
| <b>Balance as at December 31, 2009</b> | <b>556,636</b> |
| Goodwill impairment                    | (58,179)       |
| Cumulative translation adjustment      | (3,803)        |
| <b>Balance as at December 31, 2010</b> | <b>494,654</b> |
| Acquired in new subsidiaries           | 289,711        |
| Cumulative translation adjustment      | (24,199)       |
| <b>Balance as at December 31, 2011</b> | <b>760,166</b> |

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 9 GOODWILL AND INTANGIBLE ASSETS *continued*

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2011 of a controlling interest in SIF S.A. (Note 21(a)) amounted to \$289,711. This goodwill was preliminarily assigned to foreign rolled products segment.

As at December 31, 2011 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to \$312,523, \$5,755, \$116,451 and \$325,437, respectively.

### Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2010 and 2009 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result the Group determined that the goodwill associated with the long products segment was partially impaired, recording an estimated charge of \$58,179 and \$43,662 in "Impairment losses" line in the consolidated statement of income for the years ended December 31, 2010 and 2009, respectively. The Group's management believes that the recent global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill.

Pursuant to early adopted revised ASU 2011-08, the Group assessed qualitative factors for impairment of goodwill as at December 31, 2011 that indicated no need for further impairment testing.

### (b) Intangible assets

|                                       | Subsidiary        | Total useful life, months | Gross book value as at December 31, 2011 | Gross book value as at December 31, 2010 | Gross book value as at December 31, 2009 |
|---------------------------------------|-------------------|---------------------------|--|--|--|
| Industrial intellectual property      | SIF S.A.          | 60                        | 2,503                                    | –  | –  |
| Industrial intellectual property      | LLC VIZ-Stahl     | 149                       | 53,074                                   | 56,068                                   | 56,499                                   |
| Customer base                         | LLC VIZ-Stahl     | 125                       | 100,794                                  | 106,480                                  | 107,299                                  |
| Customers relationships               | NLMK DanSteel A/S | 72                        | 4,080                                    | 4,310                                    | 4,344                                    |
| Beneficial lease interest             | NLMK Indiana      | 38                        | 8,700                                    | 8,700                                    | 8,700                                    |
| Customers relationships (electricity) | NLMK Indiana      | 18                        | –  | 7,200                                    | 7,200                                    |
| Customer base                         | Novexco, Novex    | 180                       | 89,910                                   | 89,910                                   | 89,910                                   |
|                                       |                   |                           | 259,061                                  | 272,668                                  | 273,952                                  |
| Accumulated amortization              |                   |                           | (100,450)                                | (91,532)                                 | (70,462)                                 |
|                                       |                   |                           | <b>158,611</b>                           | <b>181,136</b>                           | <b>203,490</b>                           |

The intangible assets were acquired in business combinations and met the criteria for separate recognition outlined in ASC No. 805. They were recorded under the provisions of ASC No. 805 at fair values at the date of acquisition, based on their appraised values. Aggregated amortization expense amounted to \$14,850, \$16,268 and \$23,102 for the years ended December 31, 2011, 2010 and 2009, respectively.

Estimated amortization expense in subsequent annual periods

|                |          |
|----------------|----------|
| 2012           | (22,550) |
| 2013           | (20,047) |
| 2014           | (20,047) |
| 2015           | (20,047) |
| 2016 and later | (75,920) |

## 10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

|   | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|-------------------------|-------------------------|-------------------------|
| Trade accounts payable                                | 818,729                 | 466,988                 | 400,236                 |
| Advances received                                     | 133,402                 | 199,407                 | 114,472                 |
| Taxes payable other than income tax                   | 143,379                 | 120,287                 | 87,402                  |
| Accounts payable and accrued liabilities to employees | 199,300                 | 149,827                 | 130,813                 |
| Dividends payable                                     | 2,061                   | 2,102                   | 2,574                   |
| Short-term capital lease liability (Note 18)          | 14,757                  | 38,430                  | 30,383                  |
| Other accounts payable                                | 311,051                 | 130,393                 | 75,350                  |
|   | <b>1,622,679</b>        | <b>1,107,434</b>        | <b>841,230</b>          |

Other accounts payable as at December 31, 2011 include short-term part of payables to the Duferco Group for SIF S.A. shares of \$145,631 (Note 21(a)).

**11 SHORT-TERM AND LONG-TERM BORROWINGS**

|  | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|--|----------------------------|----------------------------|----------------------------|
| <i>Parent Company</i>  |                            |                            |                            |
| Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2012–2019 | 757,788                    | 582,192                    | –                          |
| Loan, RUB denominated, with interest rate 8.5% per annum, mature 2013  | 310,958                    | –                          | –                          |
| Bonds, RUB denominated, with interest rate from 7.75% to 10.75% per annum, mature 2012–2014                              | 1,416,108                  | 835,059                    | 502,627                    |
| Loans, US\$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2012–2013                       | 678,077                    | 1,104,707                  | 1,506,580                  |
| <i>Companies of the Long products segment</i>  |                            |                            |                            |
| <b>Russian rubles</b>  |                            |                            |                            |
| Loans with interest rates from 15% to 16% per annum, mature 2011   | –                          | –                          | 317,086                    |
| Bonds with interest rate 10% per annum, mature 2011  | –                          | –                          | 227                        |
| Other borrowings   | 1,812                      | 1,844                      | 59,315                     |
| <b>US dollars</b>  |                            |                            |                            |
| Loans with interest rate LIBOR (1 m) +3.75% per annum, mature 2011   | –                          | –                          | 19,355                     |
| <b>Euros</b>   |                            |                            |                            |
| Loans with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +3.2% per annum, mature 2012–2020                    | 107,119                    | 23,585                     | 52,209                     |
| Other borrowings   | 705                        | 4,416                      | 11,277                     |
| <i>Companies of the Foreign rolled products segment</i>  |                            |                            |                            |
| Loans, US\$ denominated, with interest rates from LIBOR +1.625 and PRIME +0.625 to 5.25% per annum, mature 2012–2013     | 51,347                     | 28,819                     | –                          |
| Loans, EURO denominated, with interest rates from EURIBOR +0.5% to EURIBOR +2% and 4.34% per annum, mature 2012–2020     | 1,014,160                  | –                          | –                          |
| Other borrowings   | 2                          | –                          | –                          |
| <i>Other companies</i>   |                            |                            |                            |
| Loan, RUB denominated, with interest rate 10% per annum  | 30,771                     | 29,019                     | 26,538                     |
| Loans, EURO denominated, with interest rate EURIBOR (6 m) +5.5% per annum, mature 2012–2013                              | 1,648                      | 2,910                      | –                          |
| Other borrowings   | 9,303                      | 11,871                     | 1                          |
|  | <b>4,379,798</b>           | <b>2,624,422</b>           | <b>2,495,215</b>           |
| Less: short-term loans and current maturities of long-term loans   | (1,306,263)                | (525,559)                  | (556,563)                  |
| <b>Long-term borrowings</b>  | <b>3,073,535</b>           | <b>2,098,863</b>           | <b>1,938,652</b>           |
| The Group's long-term borrowings as at December 31, 2011 mature between 2 to 8 years.                                    |                            |                            |                            |
| The payments scheduled for long-term loans are as follows:   |                            |                            |                            |
| 2013   |                            |                            | 1,408,338                  |
| 2014   |                            |                            | 725,835                    |
| 2015   |                            |                            | 579,782                    |
| 2016   |                            |                            | 125,014                    |
| Remainder  |                            |                            | 234,566                    |
|  |                            |                            | <b>3,073,535</b>           |

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 11 SHORT-TERM AND LONG-TERM BORROWINGS *continued*

### New borrowings

The amount of loans and bonds, received by the Group under new loan agreements concluded in the year ended December 31, 2011, and outstanding as at December 31, 2011, is \$1,401,285.

### Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfil contractual obligations. The Group companies are in compliance with debt covenants as of December 31, 2011.

## 12 OTHER LONG-TERM LIABILITIES

|   | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|---|----------------------------|----------------------------|----------------------------|
| Long-term capital lease liability (Note 18) | 26,389                     | 191,102                    | 137,592                    |
| Employee benefit obligation                 | 115,249                    | –                          | –                          |
| Other long-term liabilities                 | 283,240                    | 2,849                      | 2,314                      |
|   | <b>424,878</b>             | <b>193,951</b>             | <b>139,906</b>             |

Other long-term liabilities as at December 31, 2011 include payables of \$282,738 to Duferco Group for SIF S.A. shares (Note 21(a)).

## 13 CHANGE IN NON-CONTROLLING INTERESTS IN COMPANIES OF LONG PRODUCT SEGMENT

In June 2009, the Parent Company acquired through a public auction for \$44,572 interests of between 32% and 100% in three companies of the long products segment.

In accordance with the Russian legislation concerning pledges and pledge contracts terms, the auction was conducted by an independent organizer in order to discharge OJSC Maxi-Group subsidiaries' pledge obligations under its loans taken prior to the date of acquisition. The auction's starting price was determined by an independent appraiser.

In July 2009, the Parent Company acquired an additional interest of 25% in one of the abovementioned companies of the long products segment and as a result increased its direct interest in this subsidiary to a controlling stake.

As a result of these transactions between Group companies, there was an increase of non-controlling interest by \$25,290 with a corresponding decrease in the additional paid-in capital.

In May 2010, the Parent Company also acquired for \$20,246 an interest of 100% in an additional company of the long products segment. As a result of this transaction between Group companies, there was an increase of non-controlling interest by \$13,698 with a corresponding decrease in the additional paid-in capital.

The above acquisitions were carried out for the purpose of more efficient management of the assets.

In July 2009, a non-controlling shareholder of OJSC Maxi-Group initiated legal proceedings to contest the results of the public auction, for which a court has subsequently made a judgment to refuse the stated claims (Note 25(b)).

In August 2011, the Moscow Arbitrage Court ruled to recognize OJSC Maxi-Group as bankrupt and appointed temporary management for six months. Management of the Group concluded that this bankruptcy procedure resulted in the loss of control of OJSC Maxi-Group and therefore deconsolidated this entity from the date of the court decision. Deconsolidation resulted in the derecognition of a non-controlling deficit of \$149,194 related to OJSC Maxi-Group. Deconsolidation also resulted in the disposal of nominal share of 36% in OJSC NSMMZ, representing a non-controlling deficit of \$33,165. The total result of the deconsolidation of OJSC Maxi-Group is a net loss of \$26,830, included in "Gains / (losses) on investments, net" line in these consolidated financial statements.

## 14 STOCKHOLDERS' EQUITY

### (a) Stock

As at December 31, 2011, 2010 and 2009, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at stockholders' meetings.

### (b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at December 31, 2011, 2010 and 2009, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$9,104,566, \$8,990,627 and \$8,154,649, converted into US dollars using exchange rates at December 31, 2011, 2010 and 2009, respectively.

The dividend policy provides for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

In September 2011, the Parent Company declared dividends for the six months ended June 30, 2011 of 1.4 Russian rubles per share for the total of \$263,704 (at the historical rate).

In June 2011, the Parent Company declared dividends for the year ended December 31, 2010 of 1.82 Russian rubles per share for the total of \$378,687, including interim dividends for the six months ended June 30, 2010 of 0.62 Russian ruble per share for the total of \$122,218 (at the historical rate). Dividends payable amounted to \$2,061 at December 31, 2011 (Note 10).

In September 2010, the Parent Company declared interim dividends for the six-month period ended June 30, 2010 of 0.62 Russian ruble per share for the total of \$122,218 (at the historical rate). Dividends payable amounted to \$2,102 at December 31, 2010 (Note 10).

In June 2010, the Parent Company declared dividends for the year ended December 31, 2009 of 0.22 Russian rubles per share for the total of \$42,679 (at the historical rate).

In June 2009, the Parent Company declared dividends for the year ended December 31, 2008 of 2 Russian rubles per share for the total of \$471,338 (at the historical rate), including interim dividends for the six months ended June 30, 2008 of 2 Russian rubles per share, declared in September 2008.

### 15 DISPOSALS OF ASSETS

In June 2011, the Parent Company has completed the disposal of 100% of its interest in NTK LLC and its subsidiaries (hereinafter, NTK) to an entity under common control for a cash consideration of \$325 million (as at the date of payment). An after-tax gain on this transaction of \$207,639 was recognised by the Group and included within the "Disposal of assets to the entity under common control" line in the consolidated statements of stockholders' equity and comprehensive income for the year ended December 31, 2011.

The carrying amounts of the major classes of assets and liabilities of NTK as at the date of disposal are as follows:

|                    |         |
|--------------------|---------|
| Current assets     | 105,861 |
| Non-current assets | 264,069 |

**Total assets** **369,930**

|                         |           |
|-------------------------|-----------|
| Current liabilities     | (131,281) |
| Non-current liabilities | (181,350) |

**Total liabilities** **(312,631)**

**Net assets** **57,299**

Information on NTK's transactions up to the date of disposal is as follows:

|               |         |
|---------------|---------|
| Sales revenue | 243,685 |
| Net income    | 31,346  |

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors Strategic Planning Committee in April 2010, the interest in NTK was classified as a non-core asset.

The Group continues using the transportation services provided by NTK after the disposal. Accordingly, operations of NTK in these consolidated financial statements are reflected within continuing operations of the Group within the steel segment.

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 16 EARNINGS PER SHARE

|                                      | Year ended<br>December 31, 2011 | Year ended<br>December 31, 2010 | Year ended<br>December 31, 2009 |
|--------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Weighted average number of shares    | 5,993,227,240                   | 5,993,227,240                   | 5,993,227,240                   |
| Net income (thousands of US dollars) | 1,357,594                       | 1,255,043                       | 215,055                         |

|  |               |               |               |
|--|---------------|---------------|---------------|
| <b>Basic and diluted net income per share (US dollars)</b> | <b>0.2265</b> | <b>0.2094</b> | <b>0.0359</b> |
|--|---------------|---------------|---------------|

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2011, 2010 and 2009.

The Parent Company does not have potentially dilutive shares outstanding.

## 17 INCOME TAX

|   | For the year ended<br>December 31, 2011 | For the year ended<br>December 31, 2010 | For the year ended<br>December 31, 2009 |
|---|---|---|---|
| Current income tax expense                        | (375,391)                               | (357,182)                               | (147,341)                               |
| Deferred income tax expense:                      |   |   |   |
| origination and reversal of temporary differences | (45,643)                                | (33,790)                                | (34,443)                                |
| <b>Total income tax expense</b>                   | <b>(421,034)</b>                        | <b>(390,972)</b>                        | <b>(181,784)</b>                        |

The corporate income tax rate applicable to the Group is predominantly 20%. The income tax rate applicable to the majority of income of foreign subsidiaries ranges from 30% to 35%.

Income before income tax is reconciled to the income tax expense as follows:

|  | For the year ended<br>December 31, 2011 | For the year ended<br>December 31, 2010 | For the year ended<br>December 31, 2009 |
|--|---|---|---|
| Income before income tax                               | 1,682,164                               | 1,722,288                               | 594,739                                 |
| Income tax at applicable tax rate                      | (336,433)                               | (344,458)                               | (118,948)                               |
| Change in income tax:                                  |   |   |   |
| – effect of different tax rates                        | 54,644                                  | 5,740                                   | –                                       |
| – unrecognised tax loss carry forward for current year | (112,629)                               | (32,797)                                | (40,542)                                |
| – other  | (26,616)                                | (19,457)                                | (22,294)                                |
| <b>Total income tax expense</b>                        | <b>(421,034)</b>                        | <b>(390,972)</b>                        | <b>(181,784)</b>                        |

**17 INCOME TAX** *continued*

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

|  | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|--|----------------------------|----------------------------|----------------------------|
| <i>Deferred tax assets</i>   |                            |                            |                            |
| Accounts payable and other liabilities                               | 70,420                     | 75,044                     | 75,296                     |
| Non-current liabilities  | 2,172                      | 43,841                     | 33,940                     |
| Accounts receivable  | 6,114                      | 5,658                      | 11,334                     |
| Net operating loss and credit carryforwards, including:              | 561,567                    | 194,957                    | 171,183                    |
| – related to subsidiaries located in Russia (expiring in 2012–2020)  | 74,878                     | 57,995                     | 45,950                     |
| – related to subsidiaries located in the USA (expiring in 2012–2029) | 138,705                    | 136,962                    | 125,233                    |
| – related to subsidiaries located in Europe (expiring in 2012–2029)  | 1,308                      | –                          | –                          |
| – related to subsidiaries located in Europe (no expiration)          | 346,676                    | –                          | –                          |
| Less: valuation allowance  | (250,724)                  | (54,078)                   | (41,566)                   |
|  | <b>389,549</b>             | <b>265,422</b>             | <b>250,187</b>             |
| <i>Deferred tax liabilities</i>                                      |                            |                            |                            |
| Property, plant and equipment  | (780,223)                  | (537,245)                  | (514,911)                  |
| Intangible assets  | (14,847)                   | (23,501)                   | (26,375)                   |
| Inventories  | (60,807)                   | (39,994)                   | (6,777)                    |
| Other  | (14,559)                   | (7,550)                    | (16,467)                   |
|  | (870,436)                  | (608,290)                  | (564,530)                  |
| <b>Total deferred tax liability, net</b>                             | <b>(480,887)</b>           | <b>(342,868)</b>           | <b>(314,343)</b>           |

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group has established a valuation allowance against certain deferred tax assets. The Group regularly evaluates assumptions underlying its assessment of the realisability of its deferred tax assets and makes adjustments to the extent necessary. In assessing whether it is probable that future taxable profit will be available against which the Group can utilize the potential benefit of the tax loss carry-forwards, management considers the current situation and the future economic benefits outlined in specific business plans for each relevant subsidiary.

As of December 31, 2011, 2010 and 2009 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is more likely than not that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 18 CAPITAL LEASES

|   | Capital leases |
|---|----------------|
| <i>Future minimum lease payments</i>  |                |
| 2012  | 24,477         |
| 2013  | 21,795         |
| 2014  | 6,750          |
| 2015  | 3,001          |
| 2016  | 2,912          |
| Remainder   | 3,996          |
| <b>Total minimum lease payments</b>   | <b>62,931</b>  |
| Less: amount representing estimated executory costs (including taxes payable by the lessor) | (637)          |
| <b>Net lease payments</b>   | <b>62,294</b>  |
| Less: amount representing interest  | (3,918)        |
| <b>Present value of minimum lease payments</b>  | <b>58,376</b>  |
| Short-term capital lease liability, including advances given                                | 19,731         |
| Less: advances given  | (4,974)        |
| Short-term capital lease liability (Note 10)  | 14,757         |
| Long-term capital lease liability, including advances given                                 | 38,645         |
| Less: advances given  | (12,256)       |
| <b>Long-term capital lease liability (Note 12)</b>  | <b>26,389</b>  |

The average capital lease contracts term is 6 years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2011, 2010 and 2009 varied from 2.7% to 13.5%.

Capital lease charges of \$18,571, \$36,773 and \$23,179 were recorded for the years ended December 31, 2011, 2010 and 2009, respectively.

At December 31, 2011, 2010 and 2009, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

|                          | As at December 31,<br>2011 | As at December 31,<br>2010 | As at December 31,<br>2009 |
|--------------------------|----------------------------|----------------------------|----------------------------|
| Machinery and equipment  | 99,262                     | 96,408                     | 120,004                    |
| Vehicles                 | 26,635                     | 275,997                    | 208,200                    |
|                          | <b>125,897</b>             | <b>372,405</b>             | <b>328,204</b>             |
| Accumulated depreciation | (30,388)                   | (69,661)                   | (57,282)                   |
|                          | <b>95,509</b>              | <b>302,744</b>             | <b>270,922</b>             |

## 19 NON-CASH TRANSACTIONS

Approximately \$24,800, \$102,500 and \$57,500 of the Group's 2011, 2010 and 2009 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods supplied.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

In 2011, 2010 and 2009 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2011, 2010 and 2009, were \$18,430, \$97,606 and \$83,186, respectively.

## 20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables, and short-term loans approximate to a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments and notes receivable, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in an active market. Fair values for these investments are determined based on discounted cash flows and approximate their book values. The fair value of long term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates its book value.

The fair values of trading and available-for-sale securities are based on quoted market prices for these or similar instruments.

## 21 BUSINESS COMBINATIONS

### (a) Acquisition of Steel Invest & Finance (Luxembourg) S.A. shares

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group. This acquisition is aimed to enhance the Group's competitive strengths on the global market through the expansion of vertical integration of assets, optimization of a product portfolio and geographic diversification.

The purchase price is \$600 million. The first tranche of \$150 million was paid on June 30, 2011. The remaining tranches are payable in arrears in three equal annual instalments. Management has assessed fair value of the purchase consideration for 50% acquired as a result of business combination as \$578 million.

Management has assessed fair value of 50% shares in SIF S.A. held before the business combination as \$289 million. Fair value was based on values of assets and liabilities of SIF S.A. determined by an independent appraiser. A gain of \$104 million as a result of remeasuring to fair value the previously held equity interest was recognised and included in the line "Gains / (losses) on investments, net" in the consolidated statement of income.

The total purchase consideration that includes fair value of purchase consideration for 50% acquired as a result of business combination and the fair value of the previously held interest amounted to \$867 million.

The Group also recognised deferred tax assets on SIF S.A. losses carried forward as of approximately \$200 million as the result of this consolidation. Most of these losses are in jurisdictions where there is an indefinite carry-forward period. The management anticipates utilization of these losses starting from 2013 and believes these assets will be recovered in the future.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates determined by an independent appraiser. Management has preliminarily determined that resulting goodwill primarily reflects the control premium paid for the acquisition and future synergies from using SIF S.A. assets for marketing Group metal products in Europe and USA.

## FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

### 21 BUSINESS COMBINATIONS *continued*

|   |                    |
|---|--------------------|
| Accounts receivable and advances given, net | 685,842            |
| Inventories, net                            | 1,169,496          |
| Other current assets                        | 139,680            |
| Intangible assets                           | 11,597             |
| Property, plant and equipment               | 1,735,259          |
| Deferred tax assets                         | 270,670            |
| Other non-current assets                    | 787                |
| <b>Total assets acquired</b>                | <b>4,013,331</b>   |
| Accounts payable and other liabilities      | (1,130,196)        |
| Other current liabilities                   | (860,231)          |
| Non-current liabilities                     | (1,065,347)        |
| Deferred income tax liability               | (380,240)          |
| <b>Total liabilities assumed</b>            | <b>(3,436,014)</b> |
| <b>Net assets acquired</b>                  | <b>577,317</b>     |
| Purchase consideration                      | 867,028            |
| <b>Goodwill</b>                             | <b>289,711</b>     |

For the period from the date of acquisition to December 31, 2011 SIF S.A. has contributed to the Group revenue and net income of \$1,503,903 and \$(285,512), respectively. If the acquisition had occurred on January 1, 2011, the Group's revenue and profit for the year ended December 31, 2011 would have been \$13,014,855 and \$1,407,592, respectively. If the acquisition had occurred on January 1, 2010, the Group's revenue and profit for the year ended December 31, 2010 would have been \$10,393,874 and \$1,153,020, respectively.

#### (b) Other acquisitions

In October 2010, the Group acquired a 100% stake in LLC VMI Recycling Group which owns scrap collection and processing assets located in the Moscow region, for a consideration of \$28.4 million. This acquisition is in line with NLMK's vertical integration strategy aimed at enhancing the Group's self-sufficiency in main raw materials.

## 22 SEGMENT INFORMATION

Starting from July 2011 the Group changed the composition and the presentation of its reportable segments as a result of a change in the Group's structure (Note 21(a)) and internal organization. Comparative financial information has been adjusted to conform to the presentation of current period amounts.

The Group has four reportable business segments: steel, foreign rolled products, long products and mining. Results of the production of coke and coke-chemical products are now presented within the steel segment in these consolidated financial statements. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The investments in equity method investee and equity in net earnings / (losses) of associates are included in the steel segment (Note 5).

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income from continuing operations, net of income tax.

Segmental information for the year ended December 31, 2011 is as follows:

|   | Steel            | Foreign rolled products | Long products    | Mining           | All other    | Totals           | Inter-segmental operations and balances | Consolidated     |
|---|------------------|-------------------------|------------------|------------------|--------------|------------------|---|------------------|
| Revenue from external customers           | 8,042,717        | 2,381,534               | 1,154,202        | 148,858          | 1,245        | 11,728,556       | –                                       | 11,728,556       |
| Intersegment revenue                      | 985,008          | 3,182                   | 640,140          | 1,290,944        | –            | 2,919,274        | (2,919,274)                             | –                |
| Depreciation and amortization             | (332,530)        | (119,432)               | (89,063)         | (47,625)         | (57)         | (588,707)        | –                                       | (588,707)        |
| <b>Gross profit / (loss)</b>              | <b>2,186,262</b> | <b>(60,531)</b>         | <b>208,426</b>   | <b>1,075,097</b> | <b>576</b>   | <b>3,409,830</b> | <b>(50,224)</b>                         | <b>3,359,606</b> |
| <b>Operating income / (loss)</b>          | <b>1,075,282</b> | <b>(305,210)</b>        | <b>(54,714)</b>  | <b>991,854</b>   | <b>(851)</b> | <b>1,706,361</b> | <b>(40,682)</b>                         | <b>1,665,679</b> |
| Interest income                           | 280,318          | 2,630                   | 2,815            | 8,248            | 1,141        | 295,152          | (265,621)                               | 29,531           |
| Interest expense                          | (8,888)          | (51,942)                | (204,791)        | –                | –            | (265,621)        | 265,621                                 | –                |
| Income tax                                | (245,235)        | 15,411                  | 8,231            | (210,795)        | (292)        | (432,680)        | 11,646                                  | (421,034)        |
| <b>Income / (loss), net of income tax</b> | <b>1,159,764</b> | <b>(326,688)</b>        | <b>(317,333)</b> | <b>840,543</b>   | <b>1,902</b> | <b>1,358,188</b> | <b>(97,058)</b>                         | <b>1,261,130</b> |
| Segment assets, including goodwill        | 13,060,968       | 4,225,510               | 2,471,958        | 1,870,993        | 45,774       | 21,675,203       | (4,418,027)                             | 17,257,176       |
| Capital expenditures                      | (1,330,181)      | (103,642)               | (390,615)        | (219,940)        | (3,474)      | (2,047,852)      | –                                       | (2,047,852)      |

Segmental information for the year ended December 31, 2010 is as follows:

|   | Steel            | Foreign rolled products | Long products    | Mining         | All other    | Totals           | Inter-segmental operations and balances | Consolidated     |
|---|------------------|-------------------------|------------------|----------------|--------------|------------------|---|------------------|
| Revenue from external customers           | 6,703,172        | 700,251                 | 864,786          | 81,364         | 1,175        | 8,350,748        | –                                       | 8,350,748        |
| Intersegment revenue                      | 350,562          | –                       | 512,208          | 831,257        | 16           | 1,694,043        | (1,694,043)                             | –                |
| Depreciation and amortization             | (306,409)        | (31,579)                | (74,299)         | (57,059)       | (72)         | (469,418)        | –                                       | (469,418)        |
| <b>Gross profit</b>                       | <b>2,146,308</b> | <b>7,901</b>            | <b>208,659</b>   | <b>603,732</b> | <b>284</b>   | <b>2,966,884</b> | <b>(18,790)</b>                         | <b>2,948,094</b> |
| <b>Operating income / (loss)</b>          | <b>1,316,822</b> | <b>(30,972)</b>         | <b>(27,811)</b>  | <b>544,544</b> | <b>(914)</b> | <b>1,801,669</b> | <b>(7,079)</b>                          | <b>1,794,590</b> |
| Interest income                           | 286,672          | 63                      | 3,240            | 82             | 1,310        | 291,367          | (246,296)                               | 45,071           |
| Interest expense                          | (15,604)         | (20,845)                | (225,712)        | –              | –            | (262,161)        | 246,296                                 | (15,865)         |
| Income tax                                | (307,360)        | 3,633                   | 17,640           | (107,479)      | (407)        | (393,973)        | 3,001                                   | (390,972)        |
| <b>Income / (loss), net of income tax</b> | <b>1,466,372</b> | <b>(49,688)</b>         | <b>(244,897)</b> | <b>428,173</b> | <b>1,571</b> | <b>1,601,531</b> | <b>(270,215)</b>                        | <b>1,331,316</b> |
| Segment assets, including goodwill        | 12,814,485       | 652,647                 | 2,276,364        | 1,195,472      | 43,092       | 16,982,060       | (3,083,035)                             | 13,899,025       |
| Capital expenditures                      | (1,063,784)      | (15,291)                | (254,428)        | (126,241)      | (3,465)      | (1,463,209)      | –                                       | (1,463,209)      |

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 22 SEGMENT INFORMATION *continued*

Segmental information for the year ended December 31, 2009 is as follows:

|   | Steel            | Foreign rolled products | Long products    | Mining         | All other    | Totals           | Inter-segmental operations and balances | Consolidated     |
|---|------------------|-------------------------|------------------|----------------|--------------|------------------|---|------------------|
| Revenue from external customers           | 5,066,531        | 410,619                 | 572,476          | 84,997         | 5,272        | 6,139,895        | –                                       | 6,139,895        |
| Intersegment revenue                      | 190,385          | –                       | 309,984          | 430,457        | 41           | 930,867          | (930,867)                               | –                |
| Depreciation and amortization             | (287,548)        | (36,033)                | (72,504)         | (81,232)       | (800)        | (478,117)        | –                                       | (478,117)        |
| <b>Gross profit / (loss)</b>              | <b>1,715,569</b> | <b>(31,184)</b>         | <b>51,844</b>    | <b>216,904</b> | <b>2,330</b> | <b>1,955,463</b> | <b>34,070</b>                           | <b>1,989,533</b> |
| <b>Operating income / (loss)</b>          | <b>898,769</b>   | <b>(64,632)</b>         | <b>(141,753)</b> | <b>159,780</b> | <b>1,410</b> | <b>853,574</b>   | <b>38,347</b>                           | <b>891,921</b>   |
| Interest income                           | 198,413          | –                       | 2,797            | 11,802         | 1,196        | 214,208          | (154,475)                               | 59,733           |
| Interest expense                          | (87,017)         | (19,276)                | (226,598)        | (33)           | (4)          | (332,928)        | 162,023                                 | (170,905)        |
| Income tax                                | (183,275)        | 13,028                  | 21,612           | (27,346)       | (806)        | (176,787)        | (4,997)                                 | (181,784)        |
| <b>Income / (loss), net of income tax</b> | <b>1,240,577</b> | <b>(90,958)</b>         | <b>(400,638)</b> | <b>140,376</b> | <b>2,454</b> | <b>891,811</b>   | <b>(478,856)</b>                        | <b>412,955</b>   |
| Segment assets, including goodwill        | 10,897,199       | 610,226                 | 2,104,795        | 1,000,955      | 41,729       | 14,654,904       | (2,152,960)                             | 12,501,944       |
| Capital expenditures                      | (840,968)        | (19,213)                | (180,828)        | (79,718)       | (50)         | (1,120,777)      | –                                       | (1,120,777)      |

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area for the years ended December 31, 2011, 2010 and 2009, is as follows:

|                               | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|-------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Russia                        | 4,462,871                            | 3,434,379                            | 2,280,492                            |
| European Union                | 2,771,159                            | 1,802,638                            | 847,098                              |
| Middle East, including Turkey | 1,238,150                            | 1,162,157                            | 1,301,566                            |
| North America                 | 1,189,609                            | 797,183                              | 300,536                              |
| Asia and Oceania              | 997,546                              | 698,167                              | 1,225,460                            |
| Other regions                 | 1,069,221                            | 456,224                              | 184,743                              |
|                               | <b>11,728,556</b>                    | <b>8,350,748</b>                     | <b>6,139,895</b>                     |

Geographically, all significant assets, production and administrative facilities of the Group are substantially located in Russia, USA and Europe.

## 23 RISKS AND UNCERTAINTIES

### (a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management considered impairment provisions by taking into account the economic situation and outlook at the end of the reporting period.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational and legal risks.

**23 RISKS AND UNCERTAINTIES** *continued***(b) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and commodity price risk.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. To manage this risk the Group analyzes interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans and by hedging of interest rates.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risk. To minimize foreign currency risks the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency. At the same time standard hedging instruments to manage foreign currency risk might be used.

The net foreign currency position as at December 31, 2011 is as follows:

|  | US dollar | Euro        | Other currencies |
|--|-----------|-------------|------------------|
| Cash and cash equivalents              | 336,674   | 228,326     | 4,040            |
| Accounts receivable and advances given | 243,954   | 623,215     | 20,637           |
| Investments                            | –         | 1,478       | 7,786            |
| Accounts payable and other liabilities | (600,120) | (437,141)   | (1,501)          |
| Short-term borrowings                  | (454,330) | (359,228)   | –                |
| Long-term borrowings                   | (275,094) | (1,522,871) | –                |

**Commodity price risk**

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group's future performance and the Group's operational results.

The Group minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

**(c) Credit risk**

Credit risk is the risk when counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group structures the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

**(d) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

**(e) Insurance**

To minimize its risks the Group has voluntary insurance contracts to insure property, plant and equipment, land transport and aircraft as well as certain type of cargo and purchased accident and health insurance, and medical insurance for employees, and directors and officers liability insurance (D&O). The Group also purchases operating entities civil liability coverage for dangerous production units.

# FINANCIAL STATEMENTS: NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at and for the years ended December 31, 2011, 2010 and 2009  
(thousands of US dollars)

## 24 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at December 31, 2011, 2010 and 2009 and transactions for the years ended December 31, 2011, 2010 and 2009 with related parties of the Group consist of the following:

### (a) Sales to and purchases from related parties

#### *Sales*

Sales to an associate (SIF S.A.) and one of its subsidiaries were \$726,627, \$777,573 and \$483,546 for the years ended December 31, 2011, 2010 and 2009, respectively. Sales to other related parties were \$12,807, \$13,558 and \$6,802 for the years ended December 31, 2010, 2009 and 2008, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equalled \$215,649 and \$145,243 as at December 31, 2010 and 2009, respectively. Accounts receivable from other related parties equalled \$45,978, \$5,559 and \$690 as at December 31, 2011, 2010 and 2009, respectively.

#### *Purchases*

Purchases from the subsidiary of an associate (SIF S.A.) were \$978 and \$1,825 for the years ended December 31, 2011 and 2010, respectively. There were no such purchases for the year ended December 31, 2009. Purchases from companies under common control, were \$422,615, \$37,399 and \$6,683 for the years ended December 31, 2011, 2010 and 2009, respectively.

Accounts payable to the subsidiary of an associate (SIF S.A.) were \$7,500 and nil as at December 31, 2010 and 2009, respectively. Accounts payable to the related parties were \$3,453, \$72,072 and \$117 as at December 31, 2011, 2010 and 2009, respectively.

### (b) Financial transactions

The carrying amount of loans to an associate (SIF S.A.), including interest accrued, is \$515,264 and \$589,542 as at December 31, 2010 and 2009, respectively.

As at December 31, 2010 and 2009, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to \$217,496 and \$201,942, respectively. These guarantees are mostly issued in favour of banks.

Deposits and current accounts of the Group companies in banks under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT and OJSC Lipetskcombank) amounted to \$56,395, \$94,147 and \$108,722 as at December 31, 2011, 2010 and 2009, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2011, 2010 and 2009 amounted to \$873, \$1,463 and \$1,899, respectively.

During the year ended December 31, 2010, a company under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT) purchased bonds issued by the Parent Company of \$11,731 (as at the date of issue).

### (c) Common control transfers and disposal of investments

In June 2011, the Parent Company has completed disposal of 100% of its interest in NTK to an entity under common control for a cash consideration of \$325 million (as at the date of payment) (Note 15).

### (d) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to nil, \$3,538 and \$3,349 in 2011, 2010 and 2009, respectively. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

## 25 COMMITMENTS AND CONTINGENCIES

### (a) Anti-dumping investigations

The Group's export trading activities are subject to from time to time compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

### (b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the accompanying consolidated financial statements.

In July 2009, the Parent Company and OJSC Maxi-Group received a claim filed in a court in Russia from Maxi-Group's non-controlling shareholder to invalidate and reverse the results of the public auction through which NLMK acquired shares in companies, controlled by Maxi-Group (Note 13). Subsequently in November 2009, a Russian court of the first instance adjudicated against the claim from Maxi-Group's non-controlling shareholder and an appellate court upheld this decision. Accordingly, no accruals in relation to this claim were made in these consolidated financial statements.

In January 2010, the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group filed with the International Commercial Arbitration Court at the Russian Federation Chamber of Commerce and Industry (hereinafter, ICA Court) to enforce the additional payment by the Parent Company for the shares of OJSC Maxi-Group in accordance with the binding agreement. This claim is based on the non-controlling shareholder's interpretation of the binding agreement. In February 2010, as a result of due diligence of Maxi-Group entities, the Parent Company filed a counter-claim to ICA Court seeking collection from the non-controlling shareholder of OJSC Maxi-Group of excessively paid amounts for the acquired shares.

## 25 COMMITMENTS AND CONTINGENCIES *continued*

In March 2011, the ICA Court partially (in the amount of about \$297 million, at the exchange rate as of December 31, 2011) satisfied the claims of Maxi-Group's non-controlling shareholder against the Parent Company. After this decision the non-controlling shareholder initiated court cases in certain European courts to enforce payment of this claim. In April 2011, the Group's management initiated proceedings to challenge the resolution of the ICA Court, sending an application to the Arbitration Court of Moscow (the court of the first instance). In June 2011, the Arbitration Court of Moscow cancelled the respective resolution of the ICA Court. In August 2011, the Federal Arbitration Court of the Moscow Circuit initiated proceedings regarding cassation appeal filed by the non-controlling shareholder of OJSC Maxi-Group on revocation of the ICA Court decision. In September 2011, Federal Arbitrage Court of Moscow region adjudicated not to change the June decision of the Arbitration Court of Moscow. In November 2011, the Supreme Commercial Court of the Russian Federation registered a claim from the non-controlling shareholder of OJSC Maxi-Group for a supervisory review of the judicial acts of the corresponding courts. In January 2012, the Board of the Supreme Commercial Court adjudicated to refuse for a supervisory review. Accordingly, no accruals in relation to this claim were made in these consolidated financial statements.

In March 2009, NLMK and DBO Holdings Inc. signed a settlement agreement with respect to their dispute concerning NLMK's abandoned acquisition of John Maneely Company, which provided for the full mutual release and discharge by the parties arising from the potential transaction and payment to DBO Holdings Inc. an amount of \$234 million. This amount was fully paid to DBO Holdings Inc. in March 2009.

### (c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

### (d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$1,396,561, \$1,973,043 and \$1,678,660 as at December 31, 2011, 2010 and 2009, respectively.

### (e) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

### (f) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities, including certain operation of intercompany financing of Russian subsidiaries within the Group, that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed, and certain expenses used for profit tax calculation may be excluded from tax returns. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from January 1, 2012. It introduces significant reporting and documentation requirements.

As at December 31, 2011, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

### (g) Financial guarantees issued

As at December 31, 2011, 2010 and 2009, the Group has issued guarantees amounting to nil, \$218,553 and \$214,148, respectively, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 24(b)). No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

## 26 SUBSEQUENT EVENTS

The Group's management has performed an evaluation of subsequent events through the period from January 1, 2012 to March 24, 2012, which is the date when these consolidated financial statements were available to be issued.

# APPENDICES

## IN THIS SECTION

### 126 NLMK'S SUBSIDIARIES AND AFFILIATES

The Group's subsidiaries and affiliates, their activity and NLMK's share.

### 128 NLMK'S KEY PRODUCTS WITH DESCRIPTIONS

Detailed descriptions of the Group's products, their examples of use, method of production and market share and quality.

### 130 GLOSSARY

Explanations around the terminology used in the report.



**NLMK** INDIANA  
Member of NLMK Group  
**TERRY LAIRD**

## CREATING VALUE THROUGH INTEGRATION

“I’m proud to be a part of a team here at NLMK Indiana that has delivered improved performance over the last couple of years, consistently breaking old production records and establishing new ones as we also improve our quality and product offerings. It’s much more exciting to be a part of a winning team, and I look forward to more fun and excitement in the coming years.”

Terry Laird,  
Director of Operations,  
NLMK Indiana

Understanding NLMK  
1 – 13

Strategic review  
14 – 47

Performance review  
48 – 79

Governance  
80 – 93

Financial statements  
94 – 123

**APPENDICES**  
124 – 132

## APPENDICES: NLMK'S SUBSIDIARIES AND AFFILIATES

As of December, 2011

| No.                 | Company name   | Activity   | Share of OJSC<br>Novolipetsk in<br>Charter Capital<br>(%) | Location   |
|---------------------|--|--|---|--|
| <b>Subsidiaries</b> |  |  |   |  |
| 1                   | Novolipetsky Metallurg Resort,<br>a subsidiary of Novolipetsk  | Rest and recreation services, health and rehabilitation<br>facility.   | 100   | 25 Chekhova Lane, Morskoye Village,<br>Sudak, Crimea Autonomous Republic,<br>334886, Ukraine               |
| 2                   | VIZ-Stal, Limited Liability Company  | Production and marketing of electrical steel.  | 100   | 28 Kirova St., Yekaterinburg,<br>620219, Russia  |
| 3                   | Vtormetsnab NLMK,<br>Limited Liability Company   | Collection, processing and sales of ferrous scrap.   | 100   | 3 Novinskaya St., Yekaterinburg,<br>620024, Russia   |
| 4                   | Vtorchermet NLMK,<br>Limited Liability Company   | Collection, processing and sales of ferrous and<br>non-ferrous scrap.  | 100   | 3 Novinskaya St., Yekaterinburg,<br>620024, Russia   |
| 5                   | Hotel Metallurg,<br>Limited Liability Company  | Hotel services.  | 100   | 36 Lenina St., Lipetsk,<br>398020, Russia  |
| 6                   | Kleaningovaya Kompaniya<br>(Cleaning Company),<br>Limited Liability Company                            | Cleaning and janitorial services for production premises,<br>housing, equipment and vehicles.  | 100   | 8 Ferrosplavnaya St.,<br>Lipetsk, Russia   |
| 7                   | SHANS Lipetsk Insurance Company,<br>Limited Liability Company  | Insurance.   | 100   | 30 Nedelina St., Lipetsk,<br>398059, Russia  |
| 8                   | NLMK-Sort (NLMK Long Products),<br>Limited Liability Company   | Managing company, trading and procurement activities.  | 100   | 3 Novinskaya St., Yekaterinburg,<br>620024, Russia   |
| 9                   | NLMK-Uchetniy Tsentr<br>(Accounting Centre),<br>Limited Liability Company                              | Book-keeping and tax accounting services for NLMK<br>Group businesses.   | 100   | 2 Metallurgov Sq., Lipetsk,<br>398040 Russia   |
| 10                  | NLMK Overseas Holdings,<br>Limited Liability Company   | Develops the growth strategy for NLMK Group<br>companies, supports relations between the Group's<br>Russian and international businesses.                                  | 100   | 2 Metallurgov Sq., Lipetsk,<br>398040 Russia   |
| 11                  | Novolipetskaya Metallobaza,<br>Limited Liability Company   | Manufacturing of plastic and steel products.   | 100   | 8 Almaznaya St.,<br>Lipetsk, Russia  |
| 12                  | Novolipetsky Pechatny Dom<br>(Printing House),<br>Limited Liability Company                            | Printing services.   | 100   | 2 Metallurgov Sq., Lipetsk,<br>398040 Russia   |
| 13                  | NLMK Construction and Assembly Trust,<br>Limited Liability Company                                     | Contracting of industrial, housing, utilities, cultural<br>services and road construction works. Construction<br>of health facilities, household natural gas supply lines. | 100   | 2 Fanernaya St., Lipetsk,<br>398017, Russia  |
| 14                  | NLMK Trade House,<br>Limited Liability Company   | Consolidated purchases of raw materials and inputs,<br>sale of NLMK Group by-products.   | 100   | 52 Kosmodamianskaya Emb, Bldg 4,<br>Moscow, 115054, Russia   |
| 15                  | Uralskiy Zavod Pretsizionnyh Splavov<br>(Ural Plant of Precision Alloys),<br>Limited Liability Company | Production of pig iron, ferrous alloys, steel,<br>hot and cold-rolled flat steel.  | 100   | 5 Koltsevaya St., Berezovsky,<br>Sverdlovsk region,<br>623704, Russia                                      |
| 16                  | Ussuriyskaya Metallobaza,<br>Limited Liability Company   | Acquisition, processing, storage and domestic sale<br>of ferrous and non-ferrous metals.   | 100   | 8 Kommunalnaya St., Ussuriysk,<br>Primorskiy Kray, 692519, Russia  |
| 17                  | Altai-Koks,<br>Open Joint-Stock Company  | Production and marketing of coke and by-products,<br>generation and marketing of heat and electric power.  | 100   | 2 Pritayezhnaya St., Zarinsk,<br>Altayskiy Kray, 659107, Russia  |
| 18                  | Dolomit,<br>Open Joint-Stock Company   | Mining and processing of dolomite.   | 100   | 1 Sverdlova St., Dankov, Lipetsk<br>Region, Russia   |
| 19                  | Stoilensky Mining and<br>Dressing Company,<br>Open Joint-Stock Company                                 | Mining and processing of iron ore and other minerals.  | 100   | Fabrichnaya Site, South-Western<br>Industrial District, Passage 4, Stary<br>Oskol, Belgorod region, Russia |

| No.                         | Company name   | Activity   | Share of OJSC<br>Novolipetsk in<br>Charter Capital<br>(%) | Location   |
|-----------------------------|--|--|---|--|
| 20                          | Studenovskaya Joint Stock Mining Company,<br>Open Joint-Stock Company  | Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roadwork. | 100   | 4 Gaydara St., Lipetsk, 398008, Russia   |
| 21                          | Kaluzhsky Nauchno-Proizvodstvenny Elektrometallurgichesky Zavod, Closely-held Joint-Stock Company (Kaluga Mini Mill) | Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel.  | 100   | 20 Lyskina St., Vorsino Village, Borovsky Rayon, Kaluga Region, 249020, Russia |
| 22                          | Uralvtorchermet, Closely-held Joint-Stock Company  | Consulting services re commercial activities, management, investing in securities, leasing of assets.  | 100   | 3 Novinskaya St., Room 501, Yekaterinburg, Sverdlovsk Region, 620024, Russia   |
| 23                          | Lipetsky Giprometz,<br>Limited Liability Company   | Design and survey operations.  | 57.57   | 1 Kalinina St., Lipetsk, 398059, Russia  |
| 24                          | Nizhneserginsky Metizno-Metallurgicheskiy Zavod (NSMMZ),<br>Open Joint-Stock Company                                 | Production of long steel stock, hot-rolled and forged flat steel.  | 57  | 3 Karla Libknekhta St., Revda, 623280, Russia                                  |
| 25                          | North Oil and Gas Company,<br>Open Joint-Stock Company   | Prospecting and exploration of oil and gas fields.   | 51  | 8 Barrikadnaya Str., Bldg 5A, Moscow, 123242, Russia                           |
| 26                          | Maxi-Group,<br>Open Joint-Stock Company  | Consulting services, corporate financial management.   | 50,00005  | 18 3rd Yamskogo Polya St., Floor 7, Moscow, 125040, Russia                     |
| <b>Affiliated companies</b> |  |  |   |  |
| 27                          | Neptune,<br>Limited Liability Company  | Wellness services.   | 25  | Office 35, 1C Adm. Makarova St., Lipetsk, 398005 Russia                        |

## APPENDICES: NLMK'S KEY PRODUCTS WITH DESCRIPTIONS

| Item                               | Target industries  | Examples of use  | Producer   |
|------------------------------------|--|--|--|
| <b>Steel products</b>              |  |  |  |
| Pig iron                           | Automotive, machine building, steelmaking  | White goods, motor casings, bedplates, pipes and tubes, BOF processing   | Novolipetsk  |
| Slabs                              | Steelmaking  | Further processing into rolled steel flats   | Novolipetsk, NLMK USA  |
| Hot-rolled steel                   | Construction, machine building, infrastructure development, shipbuilding             | Steel structures, guardrails, ship hulls, machine casings, road-building machinery components, pressure vessels, building structures | Novolipetsk, NLMK USA, NLMK Europe Strip                                       |
| Hot-rolled plates                  | Shipbuilding, wind power generation, pipes and tubes, construction, machine building | Pipes and tubes, pressurised vessels, ship hulls, bedplates for wind power generation installations, building of bridges, pumps      | NLMK Europe Plate  |
| Cold-rolled steel                  | Construction, machine building, automotive, pipes and tubes                          | Casing components for machinery and installations, frame elements, pipes and tubes, floodlight towers, agricultural machinery        | Novolipetsk, NLMK USA, NLMK Europe Strip                                       |
| Galvanised steel                   | Construction, automotive, infrastructure development                                 | Casing components for machinery, roofing, frame elements for use in corrosive environments   | Novolipetsk, NLMK Europe Strip, NLMK USA                                       |
| Pre-painted steel                  | Construction, white goods  | Roofing and finishing materials, casings for household and commercial goods  | Novolipetsk, NLMK Europe Strip   |
| Non grain oriented (dynamo) steel  | Electrotechnical industry, machine building  | Electric motor components  | Novolipetsk  |
| Grain oriented (transformer) steel | Electrotechnical industry  | Transformer cores, stationary components of electric machines  | Novolipetsk, VIZ-Stal  |
| Billets                            | Steelmaking  | Further processing into long products  | NLMK Russia Long   |
| Long steel (rebar, wire rod)       | Construction   | Reinforced concrete structures, components of gears and machines (axles, wheels), production of screens and grills                   | NLMK Russia Long, Kaluga Mini Mill (in the future)                             |
| Metalware                          | Construction, machine building   | Wire, fittings, nails, screens   | NLMK Russia Long   |
| <b>Raw materials</b>               |  |  |  |
| Iron ore                           | Steelmaking  | Iron ore concentrate and sinter ore are used as raw materials for making pig iron in blast furnaces                                  | Stoilensky   |
| Coke                               | Steelmaking  | Coke is one of the components of the charge (fuel) used to make pig iron in blast furnaces   | Sales to third parties by Altai-Koks; production at Altai-Koks and Novolipetsk |

| Method of production   | Quality and certificates   | Key markets, sales in 2011, market position   |
|--|--|---|
| Pig iron is produced in blast furnaces using iron ore (in the form of sinter ore, and pellets). Fuel (natural gas, coke, etc.)   | Complies with international quality standards.<br>Product registration in accordance with EU REACH requirements  | Markets: Russia, CIS, United States, EU<br>Sales: 962,000 t<br>Share of total Group sales: 7 %  |
| BOF using pig iron and scrap   | Complies with international quality standards.<br>Slabs for shipbuilding steel are certified by Lloyd's Register (LR), American Bureau of Shipping (ABS), Germanischer Lloyd, Det Norske Veritas (DNV), Bureau Veritas (BV), Registro Italiano Navale (RINA)   | Markets: EU (including to foreign assets), United States, South-East Asia, Middle East<br>Sales: 3.13 mt (1.4 mt to captive foreign assets from the date of consolidation)<br>Share of total Group sales: 24%<br>Share of global market: 7% |
| Heated slabs are processed in hot-rolling mills  | Complies with international quality standards.<br>Hot-rolled steel is certified:<br>– for shipbuilding by Lloyd's Register,<br>– for pressure equipment in accordance with Directive 97/23/EC and Technical Rules Code AD 2000 at TUV SUD; and<br>– for construction products in accordance with Directive 89/106/EEC at TUV SUD (CE mark) | Markets: Russia, EU, United States, South-East Asia, Middle East<br>Sales: 2.87 mt<br>Share of total Group sales: 22%<br>Share of Russian market: 9%  |
| Heated slabs are processed in reversible rolling mills   | Complies with international quality standards  | Markets: EU, United States, South-East Asia, Middle East<br>Sales: 696,000 t<br>Share of total Group sales: 5%<br>Share of EU market: 7%  |
| Hot-rolled re-rolling stock is pickled, processed in cold-rolling mills and heat treated   | Complies with international quality standards  | Markets: Russia, EU, South-East Asia, Middle East, Africa<br>Sales: 1.62 mt<br>Share of total Group sales: 13%<br>Share of Russian market: 21%  |
| Cold-rolled and hot-rolled re-rolling stock is galvanised and heat treated   | Complies with international quality standards  | Markets: Russia, CIS, United States<br>Sales: 917,000 t<br>Share of total Group sales: 7%<br>Share of Russian market: 19%   |
| Application of polymer coats to cold-rolled or galvanised re-rolling stock   | TUV CERT certified for compliance with DIN EN 10169-1  | Markets: Russia, EU, CIS<br>Sales: 518,000 t<br>Share of total Group sales: 4%<br>Share of Russian market: 26%  |
| Pickling of hot-rolled strip, cold-rolling, thermal treatment, and application of electric insulation coating  | Complies with international quality standards  | Markets: Russia, South-East Asia, EU, Middle East<br>Sales: 277,000 t<br>Share of total Group sales: 2%<br>Share of Russian market: 51%   |
| Pickling of hot-rolled strip, 1st cold-rolling, decarburising annealing, 2nd cold-rolling, application of heat-resistant coating, high-temperature annealing, application of electric insulation coating, thermo-flattening, annealing | Complies with international quality standards  | Markets: Russia, South-East Asia, EU, Latin America, Middle East<br>Sales: 239,000 t<br>Share of total Group sales: 2%<br>Share of Russian market: 95%<br>Share of global market: 8%  |
| EAF process using scrap  | Complies with international quality standards  | Markets: Russia, Middle East<br>Sales: 84,000 t<br>Share of total Group sales: 1%   |
| Heated billets are re-rolled using bar-rolling mills   | Complies with international quality standards  | Markets: Russia, Middle East, EU, United States<br>Sales: 1.29 mt<br>Share of total Group sales: 10 %<br>Share of Russian market: 17%   |
| Long products are processed using special machines (drawing mills, nail makers). Finished products are treated with chemicals and heat, galvanised and bonderised  | Complies with international quality standards  | Markets: Russia, EU, CIS<br>Sales: 239,000 t<br>Share of total Group sales: 2%<br>Share of Russian market: 20%  |
| Ore mining and dressing (removal of spoil)   | Iron content: 66.5% in concentrate and 52% in sinter ore   | Russia, CIS, EU, China<br>Sales: 14.93 mt (incl. inter-Group sales)   |
| Coking coal is processed in coke oven batteries  |  | Russia, CIS, Middle East<br>Sales: 3.8 mt (incl. 2.64 mt at Novolipetsk)  |

### TECHNOLOGY

#### Blast Furnace

Facility for converting prepared iron ore into liquid iron (pig iron). It works on the counter flow principle: the charge, consisting of iron ore (including iron ore concentrate and pellets) and coke, is introduced from the top – usually via a rotary chute. The hot blast flows in the opposite direction. The blast is pre-heated in stoves and injected into the furnace through tuyeres. Coke is used as reduction agent. Depending on charge and method of operation, different types of pig iron can be produced. A blast furnace remains in operation for many years (furnace campaign). Blast furnace by-products are blast furnace gas and blast furnace slag.

#### Basic Oxygen Furnace (BOF)/Converter

In the basic oxygen furnace, molten iron is made into steel. Oxygen is injected to drive out carbon and other impurities dissolved in the melt. This process generates a lot of heat, so scrap is added to keep the melt at around 1700°C. The resulting crude steel is then further purified, alloyed in subsequent secondary metallurgy processes, or brought directly to the casting process.

#### Ladle Furnace

The facility used to maintain and adjust the temperature of liquid steel during processing after tapping from the BOF (or EAF). This also allows the molten steel to be kept ready for use in the event of a delay later in the steelmaking process.

#### Vacuum Degassing

Vacuum degassing involves exposing the liquid steel to vacuum to improve its properties by reducing the content of gases (hydrogen and oxygen) and the amount of non-metallic inclusions.

#### Continuous Casting

This is the process of continuously producing billets or slabs from liquid steel that is poured from a ladle, through a tundish into a cast or mould.

#### Electric Arc Furnace (EAF)

A method of producing steel through the melting of recycled steel and other sources of iron (pig iron, pellets, etc.) using electricity as a key energy source.

#### Hot-Rolling

The process of plastically deforming a hot slab into coil of specified thickness by passing it between rolls at a relatively high temperature.

#### Cold-Rolling

Changes in the structure and shape of steel achieved through rolling the steel at a low temperature (often room temperature). It is used to create a permanent increase in the hardness and strength of the steel. It is affected by the application of forces to the steel, which cause changes in the composition, enhancing certain properties. In order for these improvements to be sustained, the temperature must be below a certain range because the structural changes in the steel are eliminated at higher temperatures.

#### Continuous Rolling

In a Continuous Rolling Mill, rolling is performed simultaneously in several consecutive mill stands. The number of stands corresponds to the required amount of roll passes.

#### Reversing Mill

A Mill stand that forms material as it reciprocates between adjustable rolls. Consists of one or two stands, at least one of which carries out several reversing passes.

#### Pickling

Removing surface oxides from metals by a chemical reaction.

#### Hot Dip Galvanising

A process whereby steel is dipped into molten zinc or zinc alloy. The process can be performed continuously (by running steel strip through the molten metal) or in batches (by dipping complete products such as automobile bodies or gates into a metal bath).

#### Pre-painting Line

The method for applying organic coating involves the chemical treatment of the strip, followed by passing the strip through rolls to apply the paint and the subsequent thermal treatment of the strip to polymerise the paint. The goal is to apply the coating evenly in a short process, to obtain a uniform surface and the required coating thickness.

#### Z-mill (Sendzimir)

A cluster type cold-rolling mill operated by NLMK Pennsylvania.

Processing to finished coil is usually more complicated than low carbon product. It involves more than one cold reduction and heat treatment process (annealing) to reduce the coil to final thickness.

The Low carbon process is usually Hot Roll – Pickle – Cold Reduce – Anneal – Temper, whereas the High carbon process is often Hot Roll – Pickle – Cold Reduce – Anneal – Cold Reduce – Anneal – Temper.

The product is primarily high carbon steel (grades 1045 through 1095) and alloy steel (grades 4130 and 4140). The end use of these grades is heavily automotive-related for springs, clips, small motor parts and brackets. Some product also is used in appliances, aircraft brakes, golf clubs, blades, tools, saws and construction products.

#### Quenched & Tempered Steel

Quenching & Tempering Lines are used for the thermal treatment of thick plates.

Quenching is a heat treatment process involving heating steel to above the crystal structure transformation temperature, followed by rapid cooling. This improves the hardness of steel, but increases brittleness and makes it less ductile.

Tempering is used after quenching to reduce brittleness and improve ductility and involves reheating the steel and then allowing it to cool slowly.

As a result, ductility is improved, brittleness is reduced and the required hardness is achieved. Such steels are used to manufacture low-wear mechanism components (i.e. excavator buckets, etc.).

#### Quarto Mill

A four-high mill with rolls positioned in one vertical plane, two of which are interior and smaller in diameter (work rolls), and two are exterior and bigger in diameter (back-up rolls).

#### Quard®

Quard® is the trademark of NLMK Clabecq for its abrasion-resistant steel plates (also called wear-resistant plates) produced through a quenching and tempering process. Quard® can be supplied in various hardness levels starting from 400HB.

#### Quend®

Quend® is the trade mark of NLMK Clabecq for its high yield strength steel plates that are produced through a quenching and tempering process. Quend® can be supplied in various yield strength levels starting from 700 N/mm<sup>2</sup>.

## RAW MATERIALS AND SEMI-FINISHED PRODUCTS

### Coke

The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coking coal concentrate.

### Iron Ore Concentrate

Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed by various treatment processes. Iron (Fe) content: 66.5%.

### Pellets

An enriched form of iron ore shaped into small balls used in the steelmaking processes. Fe content: 65%.

### Fluxes

Materials added to the charge to form slag and regulate its composition.

### Scrap (Ferrous)

Ferrous (iron-containing) material that is generally remelted in electric arc furnaces. Steel mills also use scrap for up to 25% of their basic oxygen furnace charge. Scrap is waste steel, prepared for recycling.

### Sinter

A product of sintering iron-bearing particles under high temperature into chunks to remove impurities and agglomerate small fractions of iron ores and concentrates.

### Alloy

A material with metallic properties consisting of several chemical elements. Changing the composition and hence the microstructure of alloys enables the targeted engineering of desired material properties.

### Crude Steel

Steel in its primary form of hot molten metal.

### Slab

Rectangular block of steel, product of the casting process in the melt shop, used as a starting material in the rolling mills to produce hot strip.

### Pig Iron

An alloy of iron and carbon that is produced in a blast furnace.

### Billet

A semi-finished steel form that is used for long steel products such as bars, channels, wire rod or other structural shapes.

## FINANCE AND CORPORATE RESPONSIBILITY

### Corporate Responsibility (CR)

A form of corporate self-regulation integrated into a business model. Ideally, a CR policy would function as a built-in, self-regulating mechanism whereby a business would monitor and ensure its adherence to law, ethical standards, and international norms.

### High Value Added Products (HVA)

Downstream product with the additional value of a commodity over the cost of the commodities used to produce it from the previous stage of production. For the purposes of this report, this definition applies to such products as thick plates, cold-rolled and further processed steels.

### GDR

A bank certificate issued in more than one country for shares in a foreign. The shares are held by a foreign branch of an international bank. The shares are traded as domestic shares, but are also offered for sale globally through the various bank branches.

NLMK's GDR programme was launched in December 2005. GDR's are traded at the LSE, with 1 GRD = 10 ordinary shares.

### Vertical Integration

When a business controls all stages of production, from raw materials to final delivery. The advantages of vertical integration include the ability to secure supplies and future orders.

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