OJSC
NOVOLIPETSK STEEL

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN
THE UNITED STATES OF AMERICA

AS AT MARCH 31, 2013 AND DECEMBER 31, 2012
AND FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(UNAUDITED)

CONTENTS

Report of Independent Auditors

To the Board of Directors and Shareholders of OJSC Novolipetsk Steel:

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Novolipetsk Steel (the "Company") and its subsidiaries (the "Group"), which comprise the interim condensed consolidated balance sheet as of March 31, 2013, and the related interim condensed consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the three-month periods ended March 31, 2013 and March 31, 2012.

Management's Responsibility for the Interim Condensed Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of the interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial statements. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group and its subsidiaries as of December 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 25, 2013. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

May 16, 2013

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(thousands of US dollars)

	Note	As at March 31, 2013	As at December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	2	1,219,830	951,247
Short-term investments		271,190	106,906
Accounts receivable and advances given, net	3	1,556,860	1,490,951
Inventories, net	4	2,689,179	2,826,933
Other current assets		25,040	30,394
Deferred income tax assets		71,499	62,959
		5,833,598	**5,469,390**
Non-current assets			
Long-term investments		20,404	19,293
Property, plant and equipment, net	5	11,442,403	11,753,157
Intangible assets, net		135,919	141,922
Goodwill		775,655	786,141
Deferred income tax assets		266,118	249,565
Other non-current assets		36,203	38,052
		12,676,702	**12,988,130**
Total assets		**18,510,300**	**18,457,520**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	6	1,411,683	1,462,105
Short-term borrowings	7	1,484,296	1,816,169
Current income tax liability		44,515	23,800
		2,940,494	**3,302,074**
Non-current liabilities			
Deferred income tax liability		765,283	792,240
Long-term borrowings	7	3,459,342	2,815,554
Other long-term liabilities		453,513	457,362
		4,678,138	**4,065,156**
Total liabilities		**7,618,632**	**7,367,230**
Commitments and contingencies	14	-	-
Stockholders' equity			
NLMK stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at March 31, 2013 and December 31, 2012		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		256,922	306,391
Accumulated other comprehensive loss		(1,223,752)	(997,035)
Retained earnings		11,620,266	11,582,368
		10,884,876	**11,123,164**
Non-controlling interest		**6,792**	**(32,874)**
Total stockholders' equity		**10,891,668**	**11,090,290**
Total liabilities and stockholders' equity		**18,510,300**	**18,457,520**

	Note	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Revenue	11	**2,855,822**	**3,094,341**
Cost of sales			
Production cost		(2,124,755)	(2,209,677)
Depreciation and amortization		(207,249)	(177,090)
		(2,332,004)	**(2,386,767)**
Gross profit		**523,818**	**707,574**
General and administrative expenses		(119,625)	(136,023)
Selling expenses		(257,166)	(280,086)
Taxes other than income tax		(36,194)	(36,394)
Operating income		**110,833**	**255,071**
Loss on disposals of property, plant and equipment		(1,517)	(116)
(Losses) / gains on investments, net		(735)	173
Interest income		10,040	6,374
Interest expense		(30,768)	(341)
Foreign currency exchange (loss) / gain, net		(26,656)	20,514
Other expenses, net		(8,291)	(31,061)
Income before income tax		**52,906**	**250,614**
Income tax expense		(17,579)	(77,073)
Income, net of income tax		**35,327**	**173,541**
Equity in net earnings of associates		77	87
Net income		**35,404**	**173,628**
Add: Net loss / (income) attributable to the non-controlling interest		**2,494**	**(725)**
Net income attributable to NLMK stockholders		**37,898**	**172,903**
Earnings per share – basic and diluted:			
Net earnings attributable to NLMK stockholders per share (US dollars)		0.0063	0.0288
Weighted-average shares outstanding, basic and diluted (in thousands)	8	5,993,227	5,993,227

(thousands of US dollars)

Interim condensed consolidated statements of comprehensive income

	Net income	Cumulative translation adjustment	**Comprehensive income / (loss)**	Non-controlling interest	**Comprehensive income / (loss) attributable to NLMK stockholders**
For the three months ended March 31, 2012	173,628	872,399	**1,046,027**	(3,366)	**1,049,393**
For the three months ended March 31, 2013	35,404	(227,238)	**(191,834)**	(3,015)	**(188,819)**

Interim condensed consolidated statements of stockholders' equity

		NLMK stockholders						
		Common stock	**Statutory reserve**	**Additional paid-in capital**	**Accumulated other compre-hensive loss**	**Retained earnings**	**Non-controlling interest**	**Total stockholders' equity**
Balance at December 31, 2011		**221,173**	**10,267**	**306,391**	**(1,489,442)**	**11,098,635**	**(41,863)**	**10,105,161**
Net income		-	-	-	-	172,903	725	173,628
Cumulative translation adjustment		-	-	-	876,490	-	(4,091)	872,399
Balance at March 31, 2012		**221,173**	**10,267**	**306,391**	**(612,952)**	**11,271,538**	**(45,229)**	**11,151,188**
Balance at December 31, 2012		**221,173**	**10,267**	**306,391**	**(997,035)**	**11,582,368**	**(32,874)**	**11,090,290**
Net income / (loss)		-	-	-	-	37,898	(2,494)	35,404
Cumulative translation adjustment		-	-	-	(226,717)	-	(521)	(227,238)
Change of non-controlling interests in existing subsidiaries	9	-	-	(49,469)	-	-	42,681	(6,788)
Balance at March 31, 2013		**221,173**	**10,267**	**256,922**	**(1,223,752)**	**11,620,266**	**6,792**	**10,891,668**

(thousands of US dollars)

	Note	For the three months ended March 31, 2013	For the three months ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**35,404**	**173,628**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		207,249	177,090
Loss on disposals of property, plant and equipment		1,517	116
Losses / (gains) on investments, net		735	(173)
Interest expense		30,768	-
Equity in net earnings of associates		(77)	(87)
Deferred income tax benefit		(39,903)	(5,453)
Gains on derivatives		(6,478)	-
Other		49,051	5,002
Changes in operating assets and liabilities			
Increase in accounts receivable		(102,199)	(57,933)
Decrease in inventories		74,726	194,871
Decrease in other current assets		4,762	1,796
(Decrease) / increase in accounts payable and other liabilities		(16,520)	13,071
Increase in current income tax payable		21,727	381
Net cash provided by operating activities		**260,762**	**502,309**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases and construction of property, plant and equipment		(153,753)	(357,546)
Proceeds from sale of property, plant and equipment		1,424	2,956
Purchases of investments and placement of bank deposits		(281,285)	(7,821)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		119,958	239,173
Acquisition of additional stake in existing subsidiary	9	(9,609)	-
Net cash used in investing activities		**(323,265)**	**(123,238)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		852,323	86,256
Repayment of borrowings and notes payable		(553,061)	(264,259)
Capital lease payments		(7,021)	(4,818)
Dividends to shareholders		(83)	(133)
Net cash provided by / (used in) financing activities		**292,158**	**(182,954)**
Net increase in cash and cash equivalents		**229,655**	**196,117**
Effect of exchange rate changes on cash and cash equivalents		38,928	(67,574)
Cash and cash equivalents at the beginning of the year	2	951,247	797,169
Cash and cash equivalents at the end of the period	2	**1,219,830**	**925,712**

(thousands of US dollars)

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Open Joint Stock Company Novolipetsk Steel (the "Parent Company", or "NLMK") and its subsidiaries (together – the "Group") as at and for the year ended December 31, 2012. The December 31, 2012 condensed consolidated balance sheet information has been derived from the audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

In the opinion of the Group's management, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. The financial results of the periods reported herein are not necessarily indicative of future financial results.

Functional and reporting currency

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 interim condensed 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 interim condensed consolidated statement of income accounts and historic rates for equity accounts.

The Central Bank of the Russian Federation's Russian ruble to US dollar closing rates of exchange as of the reporting dates and the period weighted average exchange rates for corresponding reporting periods are indicated below.

	2013	2012
For the 1st quarter	30.4142	30.2642
As at March 31	31.0834	29.3282
As at December 31		30.3727

Recent accounting pronouncements

In July 2012, the FASB approved ASU 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. The amendments in ASU 2012-02 will allow an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. The amendments in this Update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Group believes the adoption of ASU 2012-02 will not have an impact on the Group's consolidated financial position and results of operations.

In February 2013, the FASB issued an amendment to existing guidance regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment requires an entity to present information about reclassification adjustments from accumulated other comprehensive income in its annual financial statements in a single note or on the face of the financial statements. The amendment is effective prospectively for reporting periods beginning after December 15, 2012. As substantially all of the information that this amendment requires is already disclosed elsewhere in the financial statements, it will not have a significant impact on these statements.

(thousands of US dollars)

2 CASH AND CASH EQUIVALENTS

	As at March 31, 2013	As at December 31, 2012
Cash – Russian rubles	102,931	58,922
Cash – US dollars	205,715	98,438
Cash – other currencies	138,000	183,307
Deposits – Russian rubles	282,486	441,141
Deposits – US dollars	469,364	105,940
Deposits – Euros	15,278	46,464
Deposits – other currencies	5,527	3,720
Other cash equivalents	529	13,315
	1,219,830	**951,247**

3 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at March 31, 2013	As at December 31, 2012
Trade accounts receivable	993,098	827,826
Advances given to suppliers	88,341	105,717
VAT and other taxes receivable	499,955	562,944
Accounts receivable from employees	4,106	4,375
Other accounts receivable	133,414	152,607
	1,718,914	1,653,469
Allowance for doubtful debts	(162,054)	(162,518)
	1,556,860	**1,490,951**

As at March 31, 2013 and December 31, 2012, accounts receivable of $333,703 and $264,389, respectively, served as collateral for certain borrowings (Note 7).

4 INVENTORIES

	As at March 31, 2013	As at December 31, 2012
Raw materials	1,119,510	1,201,527
Work in process	743,048	876,523
Finished goods and goods for resale	922,144	852,855
	2,784,702	2,930,905
Provision for obsolescence	(95,523)	(103,972)
	2,689,179	**2,826,933**

As at March 31, 2013 and December 31, 2012, inventories of $623,848 and $672,504, respectively, served as collateral for certain borrowings (Note 7).

(thousands of US dollars)

5 PROPERTY, PLANT AND EQUIPMENT

	As at March 31, 2013	As at December 31, 2012
Land	264,860	270,882
Mineral rights	559,414	557,769
Buildings	1,925,267	1,937,315
Land and buildings improvements	1,395,979	1,384,364
Machinery and equipment	10,220,270	10,399,285
Vehicles	378,039	383,760
Construction in progress and advances for construction and acquisition of property, plant and equipment	3,230,385	3,268,252
Leased assets	97,966	145,328
Other	150,488	151,066
	18,222,668	18,498,021
Accumulated depreciation	(6,780,265)	(6,744,864)
	11,442,403	**11,753,157**

As at March 31, 2013 and December 31, 2012, property, plant and equipment of $197,189 and $203,838 (net book value), respectively, served as collateral for certain borrowings (Note 7).

The amounts of interest capitalized are $32,769 and $68,497 for the three months ended March 31, 2013 and March 31, 2012, respectively.

Management has analyzed the performance of key reporting units in the first quarter of 2013 and believes that no changes to the estimates made as of December 31, 2012 regarding impairment of fixed assets and goodwill and parameters of NLMK La Louviere restructuring plan are required (Note 12(a)).

6 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at March 31, 2013	As at December 31, 2012
Trade accounts payable	743,652	758,044
Advances received	111,018	111,833
Taxes payable other than income tax	140,438	166,841
Accounts payable and accrued liabilities to employees	249,374	227,399
Dividends payable	1,405	1,521
Short-term capital lease liability	16,894	21,669
Other accounts payable	148,902	174,798
	1,411,683	**1,462,105**

(thousands of US dollars)

7 SHORT-TERM AND LONG-TERM BORROWINGS

	As at March 31, 2013	As at December 31, 2012
Parent Company		
Bonds, RUR denominated, with interest rate from 8.25% to 8.95% per annum, mature 2013-2015	1,315,268	1,669,297
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2013-2019	595,397	677,306
Bonds, USD denominated, with interest rate from 4.45% to 4.95% per annum, mature 2018-2019	1,304,497	506,531
Loan, RUR denominated, with interest rate 8.5% per annum, mature 2013	322,165	329,702
Loan, US$ denominated, with interest rates 3.86% per annum, mature 2013	175,783	276,259
Companies of the Foreign rolled products segment		
Loans, EURO denominated, with interest rates from EURIBOR +0.3% to EURIBOR +3.5% per annum, mature 2013-2020	884,146	902,833
Loans, US$ denominated, with interest rates from LIBOR +1.625% and PRIME +0.625% per annum, mature 2013	189,145	108,408
Other companies		
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +5.5% per annum, mature 2013-2022	113,104	117,773
Loans, RUR denominated, with interest rate 10% per annum, mature 2013-2017	37,442	36,643
Other borrowings	6,691	6,971
	4,943,638	**4,631,723**
Less: short-term loans and current maturities of long-term loans	(1,484,296)	(1,816,169)
Long-term borrowings	**3,459,342**	**2,815,554**

The Group’s long-term borrowings as at March 31, 2013 mature between 2 to 9 years.

Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with all debt covenants as at March 31, 2013.

8 EARNINGS PER SHARE

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Weighted average number of shares	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	37,898	172,903
Basic and diluted net earnings per share (US dollars)	**0.0063**	**0.0288**

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 Parent Company does not have potentially dilutive shares outstanding.

9 CHANGE IN NON-CONTROLLING INTERESTS IN COMPANIES OF LONG PRODUCT SEGMENT

In February 2013, the Parent Company acquired through a public auction for $9,609 a stake of 35.59% in OJSC NSMMZ. As a result of this transaction, there was a decrease in the additional paid-in capital by $49,469 with a corresponding change of non-controlling interest.

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. Forward contracts were short-term with maturity dates in January-February 2013.

In the first half of 2012, the Group entered into Russian ruble / US dollar cross-currency interest rate swap agreements in conjunction with Russian ruble denominated bonds issued by the Group. As a result, the Group pays US dollars at fixed rates varying from 3.11% to 3.15% per annum and receives Russian rubles at a fixed rate of 8.95% per annum. Maturity of the swaps is linked to the Russian ruble denominated bonds redemption, maturing on November 2014.

In accordance with ASC No. 820, the fair value of foreign currency derivatives is determined using Level 2 inputs. The inputs used include quoted prices for similar assets or liabilities in an active market.

Fair value of forwards is determined as the sum of the differences between the market forward rate in the settlement month prevailing at March 31, 2013 and the appropriate contract settlement rate, multiplied by discounted notional amounts of the corresponding contracts. Fair value of swaps is determined as the sum of the discounted contractual cash flows in Russian rubles and US dollars as at March 31, 2013.

(thousands of US dollars)

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

The amounts recorded represent the US dollar equivalent of the commitments to sell and purchase foreign currencies. The table below summarizes the contractual amounts and positive fair values of the Group's unrealized forward exchange contracts in US dollars.

	As at March 31, 2013		**As at December 31, 2012**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	-	-	34,551	1,196
Euro	-	-	31,912	468
	-	**-**	**66,463**	**1,664**

During the three months ended March 31, 2013 and March 31, 2012 gains from forward exchange contracts amounted to $721 and nil, respectively. These gains and losses were included in "Foreign currency exchange (loss) / gain, net" line in the interim condensed consolidated statements of income.

The table below summarizes the contractual amounts and positive fair values of the Group's unrealized cross-currency interest rate swap agreements in US dollars.

	As at March 31, 2013		**As at December 31, 2012**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	97,646	6,339	99,931	7,264
	97,646	**6,339**	**99,931**	**7,264**

During the three months ended March 31, 2013 and March 31, 2012 losses from cross-currency interest rate swap agreements amounted to $(775) and nil, respectively, and were included in "Foreign currency exchange (loss) / gain, net" line in the interim condensed consolidated statements of income.

11 SEGMENT INFORMATION

The Group has four reportable business segments: steel, foreign rolled products, long products and mining. 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.

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, net of income tax.

Segmental information for the three months ended March 31, 2013 and their assets as at March 31, 2013 is as follows:

(thousands of US dollars)

11 SEGMENT INFORMATION (continued)

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	1,659,062	816,028	288,444	91,981	307	2,855,822	-	2,855,822
Intersegment revenue	346,147	559	59,054	244,626	-	650,386	(650,386)	-
Gross profit / (loss)	**259,502**	**(6,382)**	**46,374**	**231,769**	**146**	**531,409**	**(7,591)**	**523,818**
Operating income / (loss)	**(36,305)**	**(74,008)**	**(1,748)**	**196,867**	**(381)**	**84,425**	**26,408**	**110,833**
Income / (loss), net of income tax	**(38,801)**	**(91,358)**	**(35,852)**	**163,972**	**32**	**(2,007)**	**37,334**	**35,327**
Segment assets, including goodwill	13,986,946	3,752,811	2,791,473	2,407,726	56,126	22,995,082	(4,484,782)	18,510,300

Segmental information for the three months ended March 31, 2012 and their assets as at December 31, 2012 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	1,794,650	988,979	275,043	35,669	-	3,094,341	-	3,094,341
Intersegment revenue	422,622	-	72,865	280,584	-	776,071	(776,071)	-
Gross profit / (loss)	**377,729**	**17,442**	**54,456**	**227,665**	**(13)**	**677,279**	**30,295**	**707,574**
Operating income / (loss)	**78,203**	**(62,773)**	**7,169**	**202,636**	**(459)**	**224,776**	**30,295**	**255,071**
Income / (loss), net of income tax	**113,140**	**(63,054)**	**(22,573)**	**126,807**	**(596)**	**153,724**	**19,817**	**173,541**
Segment assets, including goodwill	14,713,625	3,861,038	2,822,417	2,269,724	55,224	23,722,028	(5,264,508)	18,457,520

12 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management considered impairment provisions by taking into account the economic situation and outlook at the end of the reporting period.

In the first quarter of 2013, the global economic situation remained negative and this had a corresponding impact on steel markets, including European markets, which has resulted in, among other things, a lower level of customer demand for steel products, lower utilization rates and a downturn in steel prices.

In the first quarter of 2013, the management of NLMK La Louviere, a rolling facility in Belgium within the Foreign rolled products segment, continued to carry out a restructuring in a response to decreased customer demand and continued losses. The Group management expects to continue this restructuring during 2013.

12 RISKS AND UNCERTAINTIES (continued)

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.

(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 risk comprise of three types of risk: interest rate risk, foreign currency 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.

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. The Group's sales outside the Russian Federation in monetary terms for the three months ended March 31, 2013 and March 31, 2012 were 63% and 67% of the total sales, respectively.

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.

12 RISKS AND UNCERTAINTIES (continued)

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 risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, general liability and vehicles. In respect of legislation requirements, the Group purchases insurance of civil liability of organizations operating hazardous facilities, compulsory motor third party liability insurance. The Group also buys directors and officers liability insurance, civil liability insurance of the members of self-regulatory organizations, voluntary health insurance for employees of the Group.

13 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850, *Related Party Disclosures*. Balances as at March 31, 2013 and December 31, 2012 and transactions for the three months ended March 31, 2013 and March 31, 2012 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties were $2,858 and $2,455 for the three months ended March 31, 2013 and March 31, 2012, respectively.

Accounts receivable from related parties equaled $46,502 and $39,930 as at March 31, 2013 and December 31, 2012, respectively.

Purchases

Purchases from companies under common control were $104,360 and $170,737 for the three months ended March 31, 2013 and March 31, 2012, respectively.

Accounts payable to the related parties were $11,148 and $6,837 as at March 31, 2013 and December 31, 2012, respectively.

(b) Financial transactions

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 $153,608 and $77,079 as at March 31, 2013 and December 31, 2012, respectively. Related interest income from these deposits and current accounts for the three months ended March 31, 2013 and March 31, 2012 amounted to $805 and $156, respectively.

14 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 interim condensed 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 interim condensed consolidated financial statements.

There has been no change in the claim received by the Parent Company in December 2012, from the non-controlling shareholder of OJSC Maxi-Group about loss of assets in connection with a share-purchase agreement. The Group's management continues to consider the probability of unfavorable outcome in connection with this claim is low and accordingly, no accruals in relation to this claim were made in these interim condensed consolidated financial statements.

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $624,875 and $712,527 as at March 31, 2013 and December 31, 2012, 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.

14 COMMITMENTS AND CONTINGENCIES (continued)

Russian transfer pricing legislation was amended starting from January 1, 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international principles. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (defined by applicable legislation), provided that the transaction price is not arm's length. Management exercises its judgment about whether or not the transfer pricing documentation that the entity has prepared, as required by the new legislation, provides sufficient evidence to support the entity's tax positions. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial position and the results of operations of the Group.

As at March 31, 2013, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

15 SUBSEQUENT EVENTS

In April 2013, the Parent Company prior to maturity repaid a loan, denominated in US dollars, in amount of $175,783 as at March 31, 2013.

In April 2013, the Board of Directors of the Parent Company proposed dividends for the year ended December 31, 2012 of 0.62 Russian rubles per share in the total amount of Russian rubles of 3,715,801 thousand ($119,543 at the exchange rate as at March 31, 2013). The final amount of dividends is subject to the approval by an Annual General Stockholders' Meeting.

The Group's management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from April 1, 2013 to May 16, 2013, which is the date when these interim condensed consolidated financial statements were available to be issued.