OJSC
NOVOLIPETSK STEEL

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

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

AS AT SEPTEMBER 30, 2013 AND DECEMBER 31, 2012
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2013, and the related interim condensed consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the nine-month periods ended September 30, 2013 and September 30, 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 it 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

November 7, 2013

ZAO "PricewaterhouseCoopers Audit", White Square Office Center, 10 Butyrsky Val, Moscow, Russia 125047
T: +7 (495) 967-6000, F: +7 (495) 967-6001, www. pwc.com

(thousands of US dollars)

	Note	As at September 30, 2013	As at December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	2	835,355	951,247
Short-term investments		516,106	106,906
Accounts receivable and advances given, net	3	1,540,138	1,490,951
Inventories, net	4	1,897,135	2,826,933
Other current assets		9,308	30,394
Deferred income tax assets		119,718	62,959
		4,917,760	**5,469,390**
Non-current assets			
Long-term investments	10, 15(b)	552,207	19,293
Property, plant and equipment, net	5	10,163,384	11,753,157
Intangible assets, net		121,279	141,922
Goodwill		468,463	786,141
Deferred income tax assets		49,912	249,565
Other non-current assets		32,419	38,052
		11,387,664	**12,988,130**
Total assets		**16,305,424**	**18,457,520**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	6	1,103,550	1,462,105
Short-term borrowings	7	615,677	1,816,169
Current income tax liability		40,485	23,800
		1,759,712	**3,302,074**
Non-current liabilities			
Deferred income tax liability		578,066	792,240
Long-term borrowings	7	3,507,880	2,815,554
Other long-term liabilities		60,748	457,362
		4,146,694	**4,065,156**
Total liabilities		**5,906,406**	**7,367,230**
Commitments and contingencies	16	-	-
Stockholders' equity			
NLMK stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at September 30, 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		(1,772,212)	(997,035)
Retained earnings		11,676,022	11,582,368
		10,392,172	**11,123,164**
Non-controlling interest		**6,846**	**(32,874)**
Total stockholders' equity		**10,399,018**	**11,090,290**
Total liabilities and stockholders' equity		**16,305,424**	**18,457,520**

	Note	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Revenue	13	**8,404,675**	**9,353,666**
Cost of sales			
Production cost		(6,175,357)	(6,510,018)
Depreciation and amortization		(656,430)	(569,121)
		(6,831,787)	**(7,079,139)**
Gross profit		**1,572,888**	**2,274,527**
General and administrative expenses		(339,308)	(335,057)
Selling expenses		(696,447)	(870,643)
Taxes other than income tax		(97,294)	(127,015)
Operating income		**439,839**	**941,812**
Loss on disposals of property, plant and equipment		(16,888)	(37,566)
Gains / (losses) on investments, net		22,958	(159)
Interest income		32,063	18,468
Interest expense		(80,380)	(37,959)
Foreign currency exchange gain / (loss), net		20,647	(10,792)
Other expenses, net		(25,663)	(34,994)
Income before income tax		**392,576**	**838,810**
Income tax expense	8	(185,976)	(223,451)
Income, net of income tax		**206,600**	**615,359**
Equity in net earnings of associates		221	333
Net income		**206,821**	**615,692**
Add: Net loss attributable to the non-controlling interest		**2,451**	**1,729**
Net income attributable to NLMK stockholders		**209,272**	**617,421**
Earnings per share – basic and diluted:			
Net earnings attributable to NLMK stockholders per share (US dollars)		0.0349	0.1030
Weighted-average shares outstanding, basic and diluted (in thousands)	9	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 nine months ended September 30, 2012	615,692	309,816	**925,508**	(3,526)	**929,034**
For the nine months ended September 30, 2013	206,821	(645,347)	**(438,526)**	(2,961)	**(435,565)**

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 / (loss)		-	-	-	-	617,421	(1,729)	615,692
Cumulative translation adjustment		-	-	-	311,613	-	(1,797)	309,816
Dividends to shareholders	9	-	-	-	-	(112,072)	-	(112,072)
Balance at September 30, 2012		**221,173**	**10,267**	**306,391**	**(1,177,829)**	**11,603,984**	**(45,389)**	**10,918,597**
Balance at December 31, 2012		**221,173**	**10,267**	**306,391**	**(997,035)**	**11,582,368**	**(32,874)**	**11,090,290**
Net income / (loss)		-	-	-	-	209,272	(2,451)	206,821
Cumulative translation adjustment		-	-	-	(644,837)	-	(510)	(645,347)
Change of non-controlling interests in existing subsidiaries	11	-	-	(49,469)	-	-	42,681	(6,788)
Disposal of other comprehensive income as a result of deconsolidation	10	-	-	-	(130,340)	-	-	(130,340)
Dividends to shareholders	9	-	-	-	-	(115,618)	-	(115,618)
Balance at September 30, 2013		**221,173**	**10,267**	**256,922**	**(1,772,212)**	**11,676,022**	**6,846**	**10,399,018**

(thousands of US dollars)

	Note	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		**206,821**	**615,692**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		656,430	569,121
Loss on disposals of property, plant and equipment		16,888	37,566
(Gains) / losses on investments, net		(22,958)	159
Interest income		(32,063)	-
Interest expense		80,380	-
Equity in net earnings of associates		(221)	(333)
Deferred income tax expense / (benefit)		20,283	(2,170)
Gains on derivatives		(7,292)	(7,184)
Other		16,602	8,248
Changes in operating assets and liabilities			
(Increase) / decrease in accounts receivable		(417,120)	74,681
Decrease in inventories		152,304	128,192
Decrease in other current assets		5,720	19,218
Increase in accounts payable and other liabilities		333,344	50,187
Increase / (decrease) in current income tax payable		20,672	(2,207)
Cash provided by operating activities		**1,029,790**	**1,491,170**
Interest received		28,266	-
Interest paid		(71,074)	-
Net cash provided by operating activities		**986,982**	**1,491,170**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases and construction of property, plant and equipment		(657,880)	(1,157,451)
Proceeds from sale of property, plant and equipment		3,028	23,861
Proceeds from sale of investments, net	2	19,311	309
(Placement) / withdrawal of bank deposits, net	2	(403,089)	226,882
Acquisition of additional stake in existing subsidiary	11	(9,609)	-
Disposal of investment in subsidiary	10	46,169	-
Payments for acquisition of interests in new subsidiaries		-	(156,510)
Net cash used in investing activities		**(1,002,070)**	**(1,062,909)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		1,663,967	1,319,717
Repayment of borrowings and notes payable		(1,665,923)	(551,416)
Capital lease payments		(19,495)	(17,200)
Dividends to shareholders		(113,441)	(115,880)
Net cash (used in) / provided by financing activities		**(134,892)**	**635,221**
Net (decrease) / increase in cash and cash equivalents		**(149,980)**	**1,063,482**
Effect of exchange rate changes on cash and cash equivalents		34,088	(57,766)
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	**835,355**	**1,802,885**

(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
For the 2nd quarter	31.6130	31.0139
For the 3rd quarter	32.7977	32.0072
As at September 30	32.3451	30.9169
As at December 31		30.3727

Recent accounting pronouncements

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 September 30, 2013	As at December 31, 2012
Cash – Russian rubles	95,334	58,922
Cash – US dollars	355,349	98,438
Cash – other currencies	191,223	183,307
Deposits – Russian rubles	98,208	441,141
Deposits – US dollars	69,770	105,940
Deposits – Euros	11,400	46,464
Deposits – other currencies	1,302	3,720
Other cash equivalents	12,769	13,315
	835,355	**951,247**

Deposits with maturities over 90 days are presented as investments. Gross amount of placements of bank deposits for the nine months ended September 30, 2013 and September 30, 2012 were $856,257 and $33,171, amount of withdrawals of bank deposits were $453,169 and $260,053, respectively.

3 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at September 30, 2013	As at December 31, 2012
Trade accounts receivable	1,017,291	827,826
Advances given to suppliers	89,649	105,717
VAT and other taxes receivable	446,201	562,944
Accounts receivable from employees	5,507	4,375
Other accounts receivable	132,887	152,607
	1,691,535	1,653,469
Allowance for doubtful debts	(151,397)	(162,518)
	1,540,138	**1,490,951**

As at September 30, 2013 and December 31, 2012, accounts receivable of $138,176 and $264,389, respectively, served as collateral for certain borrowings (Note 7).

4 INVENTORIES

	As at September 30, 2013	As at December 31, 2012
Raw materials	958,866	1,201,527
Work in process	604,058	876,523
Finished goods and goods for resale	400,093	852,855
	1,963,017	2,930,905
Provision for obsolescence	(65,882)	(103,972)
	1,897,135	**2,826,933**

As at September 30, 2013 and December 31, 2012, inventories of $256,843 and $672,504, respectively, served as collateral for certain borrowings (Note 7).

(thousands of US dollars)

5 PROPERTY, PLANT AND EQUIPMENT

	As at September 30, 2013	As at December 31, 2012
Land	218,115	270,882
Mineral rights	538,791	557,769
Buildings	1,739,495	1,937,315
Land and buildings improvements	1,377,346	1,384,364
Machinery and equipment	9,217,140	10,399,285
Vehicles	372,166	383,760
Construction in progress and advances for construction and acquisition of property, plant and equipment	3,217,973	3,268,252
Leased assets	77,564	145,328
Other	100,881	151,066
	16,859,471	18,498,021
Accumulated depreciation	(6,696,087)	(6,744,864)
	10,163,384	**11,753,157**

As at September 30, 2013 and December 31, 2012, property, plant and equipment of nil and $203,838 (net book value), respectively, served as collateral for certain borrowings (Note 7).

The amount of interest capitalized was $101,647 and $156,574 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

Management has analyzed the performance of key reporting units in the nine months of 2013 and believes that no changes to the estimates made as of December 31, 2012 regarding impairment of fixed assets and goodwill are required.

6 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at September 30, 2013	As at December 31, 2012
Trade accounts payable	555,841	758,044
Advances received	102,064	111,833
Taxes payable other than income tax	135,900	166,841
Accounts payable and accrued liabilities to employees	197,957	227,399
Dividends payable	1,597	1,521
Short-term capital lease liability	16,173	21,669
Other accounts payable	94,018	174,798
	1,103,550	**1,462,105**

(thousands of US dollars)

7 SHORT-TERM AND LONG-TERM BORROWINGS

	As at September 30, 2013	As at December 31, 2012
Parent Company		
Bonds, RUR denominated, with interest rates from 8.00% to 8.95% per annum, mature or with put option in 2014-2016	1,260,517	1,669,297
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2013-2019	555,534	677,306
Bonds, USD denominated, with interest rates 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	-	329,702
Loans, USD denominated, with interest rates from LIBOR (3 m) +1.2% to 4.2% per annum, mature 2013 and 2016	300,173	276,259
Companies of the Foreign rolled products segment		
Loans, EUR denominated, with interest rates from EURIBOR +0.3% to EURIBOR +3.5% per annum, mature 2013-2020	178,250	902,833
Loans, USD denominated, with interest rates LIBOR +1.625% and PRIME +0.625% per annum, mature 2013-2014	114,848	108,408
Other companies		
Loans, USD denominated, with interest rate LIBOR (6 m) +2.5% per annum, mature 2014-2015	251,921	-
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +5.5% per annum, mature 2013-2022	114,992	117,773
Loans, RUR denominated, with interest rate 10% per annum, mature 2013-2017	36,391	36,643
Other borrowings	6,434	6,971
	4,123,557	**4,631,723**
Less: short-term loans and current maturities of long-term loans	(615,677)	(1,816,169)
Long-term borrowings	**3,507,880**	**2,815,554**

Amounts due for SIF S.A. shares, previously included in other current and long-term liabilities, are stated in loans in amount of $251,921 as of September 30, 2013 since they were reassigned to a bank.

The Group’s long-term borrowings as at September 30, 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 September 30, 2013.

8 INCOME TAX

Accounting for deferred tax consequences assumes best estimates of future events. A valuation analysis established or revised as a result of the assessment is recorded through deferred income tax expense in interim condensed consolidated statements of income. In the second quarter of 2013 valuation models, previously supported deferred tax assets recoverability in Group's major European entities were revised based on the results of analysis of economic condition in Europe. The revised models did not support recoverability of a part of these assets of $62,659, which resulted in valuation allowance recognition in the second quarter of 2013. As of September 30, 2013 figures of the majority of these European entities were eliminated from interim condensed consolidated balance sheet (Note 10).

9 EARNINGS PER SHARE

	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Weighted average number of shares	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	209,272	617,421
Basic and diluted net earnings per share (US dollars)	**0.0349**	**0.1030**

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.

In June 2013, the Parent Company declared dividends for the year ended December 31, 2012 of 0.62 Russian rubles per share for the total of $115,618 (at the historical rate). Dividends payable amounted to $1,597 as at September 30, 2013.

In May 2012, the Parent Company declared dividends for the year ended December 31, 2011 of 2 Russian rubles per share for the total of $375,776, including interim dividends for the six months ended June 30, 2011 of 1.4 Russian ruble per share for the total of $263,704 (at the historical rate).

10 PARTIAL DISPOSAL OF INVESTMENT

On September 30, 2013 the Group signed an agreement with Societe Wallonne de Gestion et de Participations S.A. (SOGEPA), a Belgian state-owned company, to sell 20.5% stake in NLMK Belgium Holdings S.A. (NBH), which comprises NLMK Europe's operating and trading companies, excluding NLMK DanSteel, for EUR 91.1 million ($122.9 million). The agreement provides SOGEPA with certain governance rights over NBH and its subsidiaries, and key management decisions will be taken jointly by NLMK Group and SOGEPA by their representation on the Board of Directors of NBH.

NLMK Group brought in SOGEPA as a strategic investor in the context of the continuing restructuring of its European assets aimed at further enhancing efficiency and optimizing costs.

The agreement resulted in the loss of control by NLMK Group over NBH and therefore NBH was deconsolidated from NLMK Group interim condensed consolidated financial statements with an effect from September 30, 2013. The Group's remaining 79.5% interest in NBH in the amount of $459.2 million is accounted for as an investment in associated undertakings, and will be treated as a related party balance. The Group has recorded a gain on disposal related to the transaction amounting to $18.9 million, which is included in "Gains / (losses) on investments, net" line. The gain on disposal comprised the following:

10 PARTIAL DISPOSAL OF INVESTMENT (continued)

	Note	USD'mln
Proceeds		122.9
Net assets of NBH at date of disposal	(a)	(373.8)
Fair value of remaining 79.5% of NBH	(b)	459.2
Release of cumulative translation adjustment		130.3
Goodwill written off		(289.7)
Fair value of put / call option	(c)	(30.0)
Gain on disposal		**18.9**

Notes:

(a) Net assets of NBH at date of disposal

The carrying amounts of assets and liabilities of NBH as at September 30, 2013 were as follows:

	USD'mln
Current assets	
Cash and cash equivalents	76.7
Accounts receivable and advances given, net	329.5
Inventories, net	609.4
Other current assets	14.3
	1,029.9
Non-current assets	
Property, plant and equipment, net	980.7
Deferred income tax assets	149.1
Other non-current assets	3.7
	1,133.5
Total assets	**2,163.4**
Current liabilities	
Accounts payable and other liabilities (including accounts payable to NLMK Group amounting to $422.2 million)	(624.7)
Short-term borrowings (including loans from NLMK Group amounting to $0.1 million)	(302.2)
	(926.9)
Non-current liabilities	
Deferred income tax liability	(199.2)
Long-term borrowings (including loans from NLMK Group entities amounting to $76.6 million)	(531.9)
Other long-term liabilities	(131.6)
	(862.7)
Total liabilities	**(1,789.6)**
Net assets	**373.8**

10 PARTIAL DISPOSAL OF INVESTMENT (continued)

Information on NBH's operations from January 1, 2013 to September 30, 2013 is as follows:

	USD'mln
Sales revenue	1,062.0
Net loss	(276.7)

(b) Fair value of remaining 79.5% of NBH

The fair value of the remaining 79.5% of NBH was determined based on management's best estimates of future cash flows, including assumptions regarding the increase in capacity utilization and the implementation of the operational business plan, including the restructuring plan.

(c) Fair value of put / call option

SOGEPA and NLMK Group also signed an option agreement, which provides NLMK Group and SOGEPA with respective call and put options over SOGEPA's 20.5% stake (5.1% of the common shares of NBH in each of 2016, 2017 and 2018, and any remaining stake after 2023).

Under the option agreement the exercise price will be based on the book value of NBH net assets, subject to a minimum value of 20.5% of the shares of EUR 91.1 million plus fixed interest. The Group has recognized a liability in respect of these options, based on their fair value in the amount of $30.0 million as at September 30, 2013. Respective liability was included in other long-term liabilities.

The options have been valued using standard, market-based valuation techniques. The significant unobservable inputs used in the fair value measurement are the annualized volatility of the underlying shares and the fair value of underlying shares.

11 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.

12 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 and November 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 September 30, 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 September 30, 2013.

(thousands of US dollars)

12 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 September 30, 2013		**As at December 31, 2012**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	247,556	4,872	34,551	1,196
Euro	-	-	31,912	468

During the nine months ended September 30, 2013 and September 30, 2012 gains from forward exchange contracts amounted to $5,526 and $4,351, respectively. These gains and losses were included in "Foreign currency exchange gain / (loss), 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 September 30, 2013		**As at December 31, 2012**	
	Notional amount	Fair value	Notional amount	Fair value
US dollars	87,639	2,584	99,931	7,264

During the nine months ended September 30, 2013 and September 30, 2012 gains / (losses) from cross-currency interest rate swap agreements amounted to $(4,456) and $4,386, respectively, and were included in "Foreign currency exchange gain / (loss), net" line in the interim condensed consolidated statements of income.

13 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 and foreign rolled products segments.

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 nine months ended September 30, 2013 and their assets as at September 30, 2013 is as follows:

	Steel	**Foreign rolled products**	**Long products**	**Mining**	**All other**	**Totals**	**Inter-segmental operations andbalances**	**Consolidated**
Revenue from external customers	4,873,265	2,295,292	957,122	278,382	614	8,404,675	-	8,404,675
Intersegment revenue	1,189,362	1,698	285,807	719,919	-	2,196,786	(2,196,786)	-
Gross profit / (loss)	**910,039**	**(65,881)**	**158,914**	**679,590**	**338**	**1,683,000**	**(110,112)**	**1,572,888**
Operating income / (loss)	**88,429**	**(266,751)**	**18,682**	**578,097**	**(1,353)**	**417,104**	**22,735**	**439,839**
Income / (loss), net of income tax	**471,458**	**(357,255)**	**(81,630)**	**518,839**	**741**	**552,153**	**(345,553)**	**206,600**
Segment assets, including goodwill	13,325,395	2,038,921	2,787,284	2,272,089	51,604	20,475,293	(4,169,869)	16,305,424

(thousands of US dollars)

13 SEGMENT INFORMATION (continued)

Segmental information for the nine months ended September 30, 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 andbalances	Consolidated
Revenue from external customers	5,446,541	2,774,453	918,074	214,172	426	9,353,666	-	9,353,666
Intersegment revenue	1,180,164	1,336	357,708	776,754	-	2,315,962	(2,315,962)	-
Gross profit	**1,352,147**	**(12,074)**	**216,852**	**702,168**	**279**	**2,259,372**	**15,155**	**2,274,527**
Operating income / (loss)	**466,876**	**(229,366)**	**76,086**	**605,504**	**(1,064)**	**918,036**	**23,776**	**941,812**
Income / (loss), net of income tax	**709,826**	**(233,132)**	**(60,036)**	**482,211**	**526**	**899,395**	**(284,036)**	**615,359**
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

14 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 nine months 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 nine months 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.

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.

14 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 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.

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 nine months ended September 30, 2013 and September 30, 2012 were 60% and 65% 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.

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.

14 RISKS AND UNCERTAINTIES (continued)

(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.

15 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850, Related Party Disclosures. Balances as at September 30, 2013 and December 31, 2012 and transactions for the nine months ended September 30, 2013 and September 30, 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 $7,082 and $8,297 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

Accounts receivable and advances given to related parties for transportation services rendered by companies of Universal Cargo Logistics Holding group equaled $38,399 and $39,930 as at September 30, 2013 and December 31, 2012, respectively. NBH group companies' accounts receivable equaled $422,243 and nil as at September 30, 2013 and December 31, 2012, respectively.

Purchases

Purchases from companies under common control (transportation services rendered by companies of Universal Cargo Logistics Holding group) were $310,117 and $499,569 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

Accounts payable to the related parties were $8,265 and $6,837 as at September 30, 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 $81,483 and $77,079 as at September 30, 2013 and December 31, 2012, respectively. Related interest income from these deposits and current accounts for the nine months ended September 30, 2013 and September 30, 2012 amounted to $2,692 and $994, respectively.

Loans, issued to NBH group companies' and accounted for under long-term investments, amounted to $76,782 and nil as at September 30, 2013 and December 31, 2012, respectively.

(c) Financial guarantees issued

As at September 30, 2013 and December 31, 2012, the Group had guarantees issued for NBH group companies' borrowings amounting to $755,239 and nil, respectively, which equals to their maximum potential amount of future payments. No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees.

16 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.

In July 2013 the Parent Company received an updated claim from the non-controlling shareholder of OJSC Maxi-Group to ICA Court in connection with a share-purchase agreement with an increase of the same claim amount from $497 mln. to about $850 mln. (as at September 30, 2013). 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 $509,376 and $712,527 as at September 30, 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.

16 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 September 30, 2013, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

17 SUBSEQUENT EVENTS

In October 2013 the Parent Company issued bonds for a total of 5 billion Russian rubles (nominal value of 1,000 Russian rubles per each bond), with a maturity period of 10 years and a coupon rate of 8.05% per annum. The terms of issuing provide put option in 4 years.

The Group's management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from October 1, 2013 to November 7, 2013, which is the date when these interim condensed consolidated financial statements were available to be issued.