OJSC
NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

**AS AT DECEMBER 31, 2013, 2012 AND 2011
AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of OJSC Novolipetsk Steel (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2013, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries at 31 December 2013, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit

March 27, 2014

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as at December 31, 2013, 2012 and 2011 (thousands of US dollars)

	Note	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	4	969,992	951,247	797,169
Short-term investments	5	484,981	106,906	227,279
Accounts receivable and advances given, net	6	1,437,697	1,490,951	1,572,641
Inventories, net	7	2,123,755	2,826,933	2,828,433
Other current assets		7,578	30,394	59,355
Deferred income tax assets	17	77,864	62,959	18,887
		5,101,867	**5,469,390**	**5,503,764**
Non-current assets				
Long-term investments	5	501,074	19,293	8,420
Property, plant and equipment, net	8	10,002,996	11,753,157	10,569,828
Intangible assets, net	9(b)	115,958	141,922	158,611
Goodwill	9(a)	463,409	786,141	760,166
Deferred income tax assets	17	58,585	249,565	237,113
Other non-current assets		40,192	38,052	19,274
		11,182,214	**12,988,130**	**11,753,412**
Total assets		**16,284,081**	**18,457,520**	**17,257,176**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	10	1,175,709	1,462,105	1,622,679
Short-term borrowings	11	1,119,286	1,816,169	1,306,263
Current income tax liability		21,553	23,800	10,994
		2,316,548	**3,302,074**	**2,939,936**
Non-current liabilities				
Deferred income tax liability	17	599,250	792,240	713,666
Long-term borrowings	11	3,038,041	2,815,554	3,073,535
Other long-term liabilities	12	55,433	457,362	424,878
		3,692,724	**4,065,156**	**4,212,079**
Total liabilities		**6,009,272**	**7,367,230**	**7,152,015**
Commitments and contingencies		**-**	**-**	**-**
Stockholders' equity				
NLMK stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2013, 2012 and 2011	14(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		256,922	306,391	306,391
Accumulated other comprehensive loss		(1,897,100)	(997,035)	(1,489,442)
Retained earnings		11,655,490	11,582,368	11,098,635
		10,246,752	**11,123,164**	**10,147,024**
Non-controlling interest		**28,057**	**(32,874)**	**(41,863)**
Total stockholders' equity		**10,274,809**	**11,090,290**	**10,105,161**
Total liabilities and stockholders' equity		**16,284,081**	**18,457,520**	**17,257,176**

The consolidated financial statements as set out on pages 4 to 38 were approved on March 27, 2014.

	Note	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Revenue	20	**10,909,442**	**12,156,592**	**11,728,556**
Cost of sales				
Production cost		(7,928,521)	(8,494,438)	(7,780,243)
Depreciation and amortization		(861,516)	(767,715)	(588,707)
		(8,790,037)	**(9,262,153)**	**(8,368,950)**
Gross profit		**2,119,405**	**2,894,439**	**3,359,606**
General and administrative expenses		(424,185)	(448,268)	(556,169)
Selling expenses		(917,270)	(1,143,610)	(972,685)
Taxes other than income tax		(134,134)	(169,786)	(165,073)
Operating income		**643,816**	**1,132,775**	**1,665,679**
Loss on disposals of property, plant and equipment		(22,413)	(38,051)	(29,293)
Gains / (losses) on investments, net		21,124	(2,828)	11,922
Interest income		40,241	28,581	29,531
Interest expense		(113,869)	(68,462)	-
Foreign currency exchange gain, net		37,804	3,282	18,662
Other expenses, net		(123,222)	(140,428)	(14,337)
Income before income tax		**483,481**	**914,869**	**1,682,164**
Income tax expense	17	(221,937)	(304,712)	(421,034)
Income, net of income tax		**261,544**	**610,157**	**1,261,130**
Equity in net (losses) / earnings of associates	19	(53,958)	276	54,272
Net income		**207,586**	**610,433**	**1,315,402**
Add: Net (income) / loss attributable to the non-controlling interest		**(18,846)**	**(14,628)**	**42,192**
Net income attributable to NLMK stockholders		**188,740**	**595,805**	**1,357,594**
Earnings per share – basic and diluted:				
Net earnings attributable to NLMK stockholders per share (US dollars)		0.0315	0.0994	0.2265
Weighted-average shares outstanding: basic and diluted (in thousands)	15	5,993,227	5,993,227	5,993,227

The accompanying notes constitute an integral part of these consolidated financial statements.

Consolidated statements of comprehensive income and statements of stockholders' equity for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

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 year ended December 31, 2011	1,315,402	(567,550)	**747,852**	(37,201)	**785,053**
For the year ended December 31, 2012	610,433	490,059	**1,100,492**	12,280	**1,088,212**
For the year ended December 31, 2013	207,586	(770,321)	**(562,735)**	18,250	**(580,985)**

Consolidated statements of stockholders' equity

		NLMK stockholders						
	Note	**Common stock**	**Statutory reserve**	**Additional paid-in capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Non-controlling interest**	**Total stockholders' equity**
Balance at December 31, 2010		**221,173**	**10,267**	**98,752**	**(916,901)**	**10,261,214**	**(120,691)**	**9,553,814**
Net income / (loss)		-	-	-	-	1,357,594	(42,192)	1,315,402
Cumulative translation adjustment	2(b)	-	-	-	(572,541)	-	4,991	(567,550)
Disposal of assets to the entity under common control	16	-	-	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)
Balance at December 31, 2011		**221,173**	**10,267**	**306,391**	**(1,489,442)**	**11,098,635**	**(41,863)**	**10,105,161**
Net income		-	-	-	-	595,805	14,628	610,433
Cumulative translation adjustment	2(b)	-	-	-	492,407	-	(2,348)	490,059
Change in non-controlling interest							(3,291)	(3,291)
Dividends to shareholders	14(b)	-	-	-	-	(112,072)	-	(112,072)
Balance at December 31, 2012		**221,173**	**10,267**	**306,391**	**(997,035)**	**11,582,368**	**(32,874)**	**11,090,290**
Net income		-	-	-	-	188,740	18,846	207,586
Cumulative translation adjustment	2(b)	-	-	-	(769,725)	-	(596)	(770,321)
Change of non-controlling interests in existing subsidiaries	13	-	-	(49,469)	-	-	42,681	(6,788)
Disposal of other comprehensive income as a result of deconsolidation	19(b)	-	-	-	(130,340)	-	-	(130,340)
Dividends to shareholders	14(b)	-	-	-	-	(115,618)	-	(115,618)
Balance at December 31, 2013		**221,173**	**10,267**	**256,922**	**(1,897,100)**	**11,655,490**	**28,057**	**10,274,809**

for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

	Note	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**207,586**	**610,433**	**1,315,402**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		861,516	767,715	588,707
Loss on disposals of property, plant and equipment		22,413	38,051	29,293
(Gains) / losses on investments, net		(21,124)	2,828	(11,922)
Interest income		(40,241)	-	-
Interest expense		113,869	68,462	-
Equity in net losses / (earnings) of associates	19	53,958	(276)	(54,272)
Deferred income tax expense	17	80,867	20,933	45,643
(Gains) / losses on derivatives		(455)	(8,522)	4,819
Other		(48,623)	14,293	24,967
Changes in operating assets and liabilities				
(Increase) / decrease in accounts receivable		(337,090)	166,715	130,417
(Increase) / decrease in inventories		(95,777)	169,858	(368,932)
Decrease in other current assets		7,351	31,628	13,495
Increase / (decrease) in accounts payable and other liabilities		412,147	(69,932)	97,616
Increase / (decrease) in current income tax payable		2,104	12,471	(10,118)
Cash provided by operating activities		**1,218,501**	**1,824,657**	**1,805,115**
Interest received		40,433	-	-
Interest paid		(81,486)	-	-
Net cash provided by operating activities		**1,177,448**	**1,824,657**	**1,805,115**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases and construction of property, plant and equipment		(756,290)	(1,453,386)	(2,047,852)
Proceeds from sale of property, plant and equipment		6,371	28,692	26,980
(Purchases) / proceeds from sale of investments and loans given, net		(87,368)	13,334	1,568
(Placement) / withdrawal of bank deposits, net		(264,412)	124,986	192,310
Acquisition of additional stake in existing subsidiary	13	(9,609)	-	-
Disposal of investment in subsidiary	19(b)	46,169	-	-
Acquisitions of subsidiaries, net of cash acquired of $112,806 in 2011	19(a)	-	(156,510)	(41,751)
Net cash used in investing activities		**(1,065,139)**	**(1,442,884)**	**(1,868,745)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		2,005,458	1,819,425	1,967,362
Repayment of borrowings and notes payable		(1,995,800)	(1,798,836)	(1,683,536)
Capital lease payments		(24,400)	(23,116)	(32,525)
Dividends to shareholders		(113,613)	(116,529)	(516,335)
Proceeds from disposal of assets to an entity under common control		-	-	313,246
Net cash (used in) / provided by financing activities		**(128,355)**	**(119,056)**	**48,212**
Net (decrease) / increase in cash and cash equivalents		**(16,046)**	**262,717**	**(15,418)**
Effect of exchange rate changes on cash and cash equivalents		34,791	(108,639)	64,608
Cash and cash equivalents at the beginning of the year	4	951,247	797,169	747,979
Cash and cash equivalents at the end of the year	4	**969,992**	**951,247**	**797,169**

The accompanying notes constitute an integral part of these consolidated financial statements.

for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

	Note	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		(143,317)	(271,224)	(374,523)
Interest (excluding capitalized interest)		(81,486)	(68,462)	-
Placements of bank deposits		(1,231,976)	(144,315)	(528,737)
Withdrawals of bank deposits		967,564	269,301	721,047
Non cash investing activities:				
Capital lease liabilities incurred		17,108	29,869	18,430
Fair value of assets disposed in course of partial disposal of investment	19(b)	867,320	-	-
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $112,806 in 2011	19(a)	-	-	464,511

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 Russian 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 20).

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 and associates, located outside the Russian Federation, comprise:

- Danish steel rolling company NLMK DanSteel A/S. The principal business activity of this company is production of hot rolled plates.
- Rolled steel producers of hot rolled, cold rolled coils and galvanized steel NLMK Pennsylvania LLC and Sharon Coating LLC, and also NLMK Indiana LLC, an EAF mini-mill producing hot-rolled steel located in USA.
- 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.
- Investment in associated undertakings NLMK Belgium Holdings S.A. (NBH) – owner of European hot rolled, cold rolled coils and galvanized and pre-pained steel producers NLMK La Louvière S.A., NLMK Coating S.A. and NLMK Strasbourg S.A., and also producers of a wide range of plates NLMK Clabecq S.A., NLMK Verona S.p.A. as well as a number of steel service centers located in the European Union.

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").

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION (continued)

(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 $(770,321), $490,059 and $(567,550) was recorded directly in stockholders' equity in the years ended December 31, 2013, 2012 and 2011, respectively.

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	2011
For the 1st quarter	30.4142	30.2642	29.2698
For the 2nd quarter	31.6130	31.0139	27.9857
For the 3rd quarter	32.7977	32.0072	29.0461
For the 4th quarter	32.5334	31.0767	31.2304
As at December 31	32.7292	30.3727	32.1961

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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 recognized as income.

(d) 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 recognized 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.

(e) 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.

(f) 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 recognized when earned.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 recognized 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.

(h) 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(k)). The cost of self-constructed assets includes the cost of materials, direct labor 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 recognized as expenses in the consolidated statement of income as incurred.

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.

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 № 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 license term given approximately even production during the period of license.

(i) 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.

(j) 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 recognized and unrecognized) from the fair value of the reporting unit (as determined in the first step).

The excess of the fair value of net assets acquired over acquisition cost represents negative goodwill (or "bargain purchase") which is recognized as a gain in the consolidated statement of income on the date 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of long-lived assets

The Group performs tests for impairment of assets where an impairment trigger has been identified. In accordance with the requirements of US GAAP management first compares the carrying amount with the undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognized. If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value.

For the purposes of impairment testing, a long-lived asset or asset group represents the lowest level for which management can separately identify cash flows that are largely independent of the cash flows of other assets and liabilities. Management combines the assets of different entities which operate together performing different stages of the production of finished goods.

(l) 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.

In 2011, 2012 and for the nine months, ended September 30, 2013 (Note 19(b)) the Group maintained defined benefit pension and defined contribution plans that covered the majority of its employees in Europe. The plans covered statutory and voluntary obligations and included 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. The fair value of any plan assets is 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.

(m) 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 recognized in the period in which the liability is incurred.

The liability is subsequently 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 recognized at the appropriate credit-adjusted risk-free rate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Borrowing activities

The Group's general-purpose funding is principally obtained from short-term and long-term borrowings. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

(o) 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 recognized 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.

(p) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized 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 carry-forwards. 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 recognized 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 historical taxable income generation, projected future taxable income, the reversal of existing deferred tax liabilities and tax planning strategies in making this assessment.

The Group does not calculate deferred taxes in respect of temporary differences associated with investments in subsidiaries and associates.

The Group accounts for uncertain tax positions and reflects liabilities for unrecognized income tax benefits together with corresponding interest and penalties in the consolidated statement of income as income tax expense.

(q) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(r) Revenue recognition

Goods sold

Revenue from the sale of goods is recognized 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 recognized in the consolidated statement of income as it is earned.

(s) 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 share of this expense in selling expenses in 2011-2013 was about 90%.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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(h)).

(u) 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 recognized as non-cash transactions.

(v) 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.

(w) 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.

(x) 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 was 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 consolidated financial statements, it did not have an impact on these consolidated financial statements.

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Cash – Russian rubles	70,834	58,922	54,448
Cash – US dollars	194,113	98,438	45,820
Cash – other currencies	160,551	183,307	66,561
Deposits – Russian rubles	204,851	441,141	173,644
Deposits – US dollars	331,778	105,940	290,854
Deposits – Euros	5,732	46,464	165,806
Deposits – other currencies	1,937	3,720	-
Other cash equivalents	196	13,315	36
	969,992	**951,247**	**797,169**

5 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Short-term investments and current portion of long-term investments			
Loans to related parties (Note 22(b))	107,565	-	-
Bank deposits and other investments	377,416	106,906	227,279
	484,981	**106,906**	**227,279**
Long-term investments			
Loans to related parties (Note 22(b))	78,030	-	-
Investments in associates	419,149	8,146	7,786
Bank deposits and other investments	3,895	11,147	634
	501,074	**19,293**	**8,420**
Total investments	**986,055**	**126,199**	**235,699**

Investments in associates

	As at December 31, 2013 Ownership	As at December 31, 2012 Ownership	As at December 31, 2011 Ownership	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
NLMK Belgium Holdings S.A. (Note 19)	79.50%	100.00%	100.00%	412,799	-	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	50.00%	6,350	8,146	7,786
				419,149	**8,146**	**7,786**

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Trade accounts receivable	895,627	827,826	944,250
Advances given to suppliers	66,813	105,717	154,622
VAT and other taxes receivable	488,173	562,944	511,118
Accounts receivable from employees	3,346	4,375	2,799
Other accounts receivable	129,902	152,607	87,710
	1,583,861	1,653,469	1,700,499
Allowance for doubtful debts	(146,164)	(162,518)	(127,858)
	1,437,697	**1,490,951**	**1,572,641**

As at December 31, 2013, 2012 and 2011 accounts receivable of $141,666, $264,389 and $297,902, respectively, served as collateral for certain borrowings (Note 11).

7 INVENTORIES

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Raw materials	980,701	1,201,527	1,215,944
Work in process	526,589	876,523	685,472
Finished goods and goods for resale	684,203	852,855	1,021,828
	2,191,493	2,930,905	2,923,244
Provision for obsolescence	(67,738)	(103,972)	(94,811)
	2,123,755	**2,826,933**	**2,828,433**

As at December 31, 2013, 2012 and 2011, inventories of $310,538, $672,504 and $641,654, respectively, served as collateral for certain borrowings (Note 11).

8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Land	215,769	270,882	201,852
Mineral rights	532,190	557,769	522,577
Buildings	2,532,082	1,937,315	1,748,813
Land and buildings improvements	2,079,292	1,384,364	1,280,211
Machinery and equipment	8,790,467	10,399,285	7,336,243
Vehicles	366,098	383,760	324,953
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,089,919	3,268,252	4,630,558
Leased assets	76,952	145,328	125,897
Other	101,561	151,066	125,585
	16,784,330	18,498,021	16,296,689
Accumulated depreciation	(6,781,334)	(6,744,864)	(5,726,861)
	10,002,996	**11,753,157**	**10,569,828**

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

8 PROPERTY, PLANT AND EQUIPMENT (continued)

In March 2011, the Group acquired a license 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 license as at December 31, 2013 is $42,021.

In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this license as at December 31, 2013 is $31,182.

A license for iron ore and non-metallics mining at Stoilensky iron-ore deposit in Belgorod Region was acquired by the Group in 2004 through a business combination. The net book value of these mineral rights as at December 31, 2013 is $185,346. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2013, 2012 and 2011, property, plant and equipment of nil, $203,838 and $541,928 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are $121,599, $197,569 and $171,764 for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013 the Group's management considered that the low level of economic activity combined with a deterioration in the steel market represented a trigger for impairment testing and has performed the tests for impairment of assets.

For the purpose of impairment testing for the year ended December 31, 2013, the Group's management has estimated cash flows for 6-19 years for different groups of assets and respective cash flows in a post-forecast period. Prices for steel products in these estimates were determined on the basis of forecasts of investment banks' analysts. The long-term growth rate implemented into the models varied from 1.8% to 3.5% for different groups of assets. As a result of these calculations no impairment was determined as at December 31, 2013.

For the purpose of impairment testing for the year ended December 31, 2012, the Group's management has combined all the entities of the European Strip Division into one reporting unit. The Group's management has assumed that negotiations with employee representatives and governmental authorities in respect of the proposed restructuring of the NLMK La Louviere plant are successful. As a result of these calculations no impairment was determined. Total assets dependent on the results of these negotiations amounted to $653,073 as at December 31, 2012.

9 GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

Balance as at December 31, 2010	**494,654**
Acquired in new subsidiaries	289,711
Cumulative translation adjustment	(24,199)
Balance as at December 31, 2011	**760,166**
Cumulative translation adjustment	25,975
Balance as at December 31, 2012	**786,141**
Disposal of goodwill in a partially disposed investment (Note 19(b))	(289,711)
Cumulative translation adjustment	(33,021)
Balance as at December 31, 2013	**463,409**

and for the years ended December 31, 2013, 2012 and 2011 (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 19(a)) amounted to $289,711. At the time of acquisition this goodwill was assigned to the steel segment and foreign rolled products segment in the amount of $128,441 and $161,270, respectively, and was disposed as a result of NBH deconsolidation (Note 19(b)).

As at December 31, 2013 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to $307,469, $5,661, $114,553 and $35,726, respectively.

Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2013 and 2012 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result as at both dates the Group determined no impairment of the tested values. Key estimates used in the impairment model are consistent with those used for assets impairment tests. The discount rates of 8-11% for different assets were used.

Pursuant to revised ASU 2011-08, the Group assessed the 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, 2013**	**Gross book value as at December 31, 2012**	**Gross book value as at December 31, 2011**
Customer base	LLC VIZ-Stahl	125	99,154	106,846	100,794
Industrial intellectual property	LLC VIZ-Stahl	149	52,209	56,260	53,074
Customer base	Novexco, Novex	180	89,910	89,910	89,910
Beneficial lease interest	NLMK Indiana	974	8,700	8,700	8,700
Industrial intellectual property	SIF S.A.	60	-	3,226	2,503
Customers relationships	NLMK DanSteel A/S	72	-	-	4,080
			249,973	264,942	259,061
Accumulated amortization			(134,015)	(123,020)	(100,450)
			115,958	**141,922**	**158,611**

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 $15,293, $25,919 and $14,850 for the years ended December 31, 2013, 2012 and 2011, respectively.

Estimated amortization expense in subsequent annual periods	
2014	(19,820)
2015	(19,820)
2016	(19,852)
2017	(10,198)
2018 and later	(46,268)

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Trade accounts payable	606,617	758,044	818,729
Advances received	105,313	111,833	133,402
Taxes payable other than income tax	134,006	166,841	143,379
Accounts payable and accrued liabilities to employees	204,143	227,399	199,300
Dividends payable	1,407	1,521	2,061
Short-term capital lease liability	17,395	21,669	14,757
Other accounts payable	106,828	174,798	311,051
	1,175,709	**1,462,105**	**1,622,679**

11 SHORT-TERM AND LONG-TERM BORROWINGS

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Parent Company			
Bonds, RUR denominated, with interest rates from 7.75% to 10.75% per annum, mature or with put option in 2012-2017	1,400,660	1,669,297	1,416,108
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2012-2019	559,928	677,306	757,788
Bonds, USD denominated, with interest rates from 4.45% to 4.95% per annum, mature 2018-2019	1,319,585	506,531	-
Loan, RUR denominated, with interest rate 8.5% per annum, mature 2013	-	329,702	310,958
Loans, USD denominated, with interest rates from LIBOR (3 m) +1.2% to 3.86% per annum, mature 2012-2013	-	276,259	678,077
Companies of the Foreign rolled products segment			
Loans, EUR denominated, with interest rates from EURIBOR +0.3% to EURIBOR +3.5% per annum, mature 2012-2020	178,822	902,833	1,014,160
Loans, USD denominated, with interest rates from LIBOR +1.2% to LIBOR +1.625% and PRIME +0.625% per annum, mature 2012-2016	140,667	108,408	51,347
Other companies			
Loans, USD denominated, with interest rates from LIBOR +1.2% to LIBOR +2.5% per annum, mature 2014-2015	400,331	-	-
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +5.5% per annum, mature 2012-2022	114,685	117,773	108,767
Loans, RUR denominated, with interest rates 8.25% and 10% per annum, mature 2014-2017	38,406	36,643	30,771
Other borrowings	4,243	6,971	11,822
	4,157,327	**4,631,723**	**4,379,798**
Less: short-term loans and current maturities of long-term loans	(1,119,286)	(1,816,169)	(1,306,263)
Long-term borrowings	**3,038,041**	**2,815,554**	**3,073,535**

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

11 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

Amounts due for SIF S.A. shares as at December 31, 2013 are stated in loans in amount of $250,024 since they were reassigned to a bank.

Amounts due for SIF S.A. shares included in other current liabilities as at December 31, 2011 amounted to $145,631; included in other long-term liabilities as at December 31, 2012 and 2011 – $282,697 and $282,738, respectively.

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

The payments scheduled for long-term loans are as follows:

2015	722,883
2016	430,566
2017	381,938
2018	918,676
Remainder	583,978
	3,038,041

New borrowings

The amount of loans and bonds, received by the Group under new loan agreements concluded in the year ended December 31, 2013, and outstanding as at December 31, 2013, is $1,605,078.

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 December 31, 2013.

12 OTHER LONG-TERM LIABILITIES

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Long-term capital lease liability	15,789	34,642	26,389
Employee benefit obligation	-	92,592	80,458
Other long-term liabilities	39,644	330,128	318,031
	55,433	**457,362**	**424,878**

Other long-term liabilities as at December 31, 2012 and 2011 include payables of $282,697 and $282,738, respectively, for SIF S.A. shares (Note 19(a)). In 2012 the repayment terms of these payables were amended to postpone the third installment to 2014.

and for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)

12 OTHER LONG-TERM LIABILITIES (continued)

	Year ended December 31, 2012	Year ended December 31, 2011
Present value of the defined benefit obligation	116,197	105,425
Less: Fair value of plan assets	(14,922)	(17,616)
Recognized liability for defined benefit obligations at the end of the period	**101,275**	**87,809**
Add: Liability for defined contribution plans	28	39
Total pension liabilities	**101,303**	**87,848**
Of which:		
Current	8,711	7,390
Non-current	92,592	80,458
Principal actuarial assumptions at the balance sheet date		
Discount rate at the end of the period	1.1% - 3%	2.5% - 4.4%
Inflation rate	2%	2%
Expense recognized in the income statement	9,947	22,650

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

In August 2011, the Moscow Arbitrage Court ruled to recognize OJSC Maxi-Group as bankrupt and appointed a 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 the “Gains / (losses) on investments, net” line in consolidated financial statements for the year ended December 31, 2011.

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 for the year ended December 31, 2013.

14 STOCKHOLDERS’ EQUITY

(a) Stock

As at December 31, 2013, 2012 and 2011, 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 the stockholders’ meetings.

14 STOCKHOLDERS' EQUITY (continued)

(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, 2013, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $8,971,697, converted into US dollars using exchange rates at December 31, 2013. As it was previously reported in the statutory financial statements the retained earnings of the Parent Company, available for distribution as at December 31, 2012 and 2011 were $10,361,802 and $9,104,566, using exchange rates at December 31, 2012 and 2011, 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 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 $1,407 as at December 31, 2013 (Note 10).

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). Dividends payable amounted to $1,521 at December 31, 2012.

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.

15 EARNINGS PER SHARE

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	188,740	595,805	1,357,594
Basic and diluted net earnings per share (US dollars)	**0.0315**	**0.0994**	**0.2265**

Basic net earnings 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, 2013, 2012 and 2011. The Parent Company does not have potentially dilutive shares outstanding.

16 DISPOSALS OF ASSETS

In June 2011, the Parent Company completed the disposal of 100% of its interest in NTK LLC and its subsidiaries (hereinafter, NTK) to an entity under common control for cash consideration of $325 million (as at the date of payment). An after-tax gain on this transaction of $207,639 was recognized by the Group and included within the "Disposal of assets to an entity under common control" line in the consolidated statements of stockholders' equity for the year ended December 31, 2011.

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16 DISPOSALS OF ASSETS (continued)

The carrying amounts of the major classes of assets and liabilities of NTK as at the date of disposal were 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.

In 2012, the Group continued using the transportation services provided by NTK after the disposal. Accordingly, transactions with NTK in these consolidated financial statements are reflected within continuing operations of the Group within the steel segment.

17 INCOME TAX

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Current income tax expense	(141,070)	(283,779)	(375,391)
Deferred income tax expense:			
origination and reversal of temporary differences	(80,867)	(20,933)	(45,643)
Total income tax expense	**(221,937)**	**(304,712)**	**(421,034)**

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%.

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17 INCOME TAX (continued)

Income before income tax is reconciled to the income tax expense as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Income before income tax	483,481	914,869	1,682,164
Income tax at applicable tax rate	(96,696)	(182,974)	(336,433)
Change in income tax:			
- tax effect of non-deductible expenses	(50,039)	(40,299)	(23,235)
- effect of different tax rates	19,038	58,890	54,644
- unrecognized tax loss carry forward for current year	(30,951)	(132,468)	(112,629)
- write-off of previously recognized deferred tax assets	(62,659)	-	-
- other	(630)	(7,861)	(3,381)
Total income tax expense	**(221,937)**	**(304,712)**	**(421,034)**

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, 2013	As at December 31, 2012	As at December 31, 2011
Gross deferred tax assets			
Accounts payable and other liabilities	170,255	180,579	70,420
Non-current liabilities	120	643	2,172
Accounts receivable	27,501	29,068	6,114
Net operating loss and credit carry-forwards, including:	373,259	763,726	561,567
- related to subsidiaries located in Russia (expiring in 2016-2023)	*77,341*	*82,147*	*74,878*
- related to subsidiaries located in the USA (expiring in 2014-2029)	*220,577*	*220,394*	*138,705*
- related to subsidiaries located in Europe (expiring in 2014-2029)	-	*1,734*	*1,308*
- related to subsidiaries located in Europe (no expiration)	*75,341*	*459,451*	*346,676*
Other	6,581	-	-
Less: valuation allowance	(300,024)	(525,680)	(250,724)
	277,692	**448,336**	**389,549**
Gross deferred tax liabilities			
Property, plant and equipment	(704,253)	(869,586)	(780,223)
Intangible assets	(21,817)	(11,995)	(14,847)
Inventories	(32,247)	(43,004)	(60,807)
Other	-	(5,416)	(14,559)
	(758,317)	**(930,001)**	**(870,436)**
Total deferred tax liability, net	**(480,625)**	**(481,665)**	**(480,887)**

17 INCOME TAX (continued)

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 realizability 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 subsidiary.

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 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 December 31, 2013 figures of the majority of these European entities were eliminated from consolidated balance sheet (Note 19(b)).

As at December 31, 2013, 2012 and 2011 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

18 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 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 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.

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18 FINANCIAL INSTRUMENTS (continued)

Fair value of forwards is determined as the sum of the differences between the market forward rate in the settlement month prevailing at December 31, 2012 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 December 31, 2012.

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 December 31, 2013		**As at December 31, 2012**		**As at December 31, 2011**	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	-	-	34,551	1,196	-	-
Euro	-	-	31,912	468	-	-
	-	**-**	**66,463**	**1,664**	**-**	**-**

During 2013, 2012 and 2011 gains from forward exchange contracts amounted to $4,611, $9,109 and $9,655, respectively. These gains and losses were included in "Foreign currency exchange gain, net" line in the 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 December 31, 2013		**As at December 31, 2012**		**As at December 31, 2011**	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	83,258	573	99,931	7,264	-	-
	83,258	**573**	**99,931**	**7,264**	**-**	**-**

During 2013 and 2012 gains / (losses) from cross-currency interest rate swap agreements amounted to $(6,448) and $6,976 and were included in "Foreign currency exchange gain, net" line in the consolidated statements of income.

19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A. AND NLMK BELGIUM HOLDINGS S.A. SHARES

(a) Acquisition of SIF S.A. shares

In December 2006, in line with a strategic partnership with the Duferco group, the Group acquired for $805 million 50% of the issued shares of SIF S.A., which were accounted for by the Group under the equity method until July 2011. The transaction agreements provided for the Group the call option, and for Duferco group put and call options in regards to all interest in SIF S.A.

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco group. The purchase price was $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 installments. Management assessed the fair value of the purchase consideration for 50% acquired as a result of the business combination as $578 million.

19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A. AND NLMK BELGIUM HOLDINGS S.A. SHARES (continued)

The fair value of 50% shares in SIF S.A. held before the business combination had been appraised at $289 million. Fair value assessment 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 recognized and included in the "Gains / (losses) on investments, net" line in the consolidated statement of income in 2011.

The total purchase consideration that includes the fair value of purchase consideration for 50% acquired as a result of the business combination and the fair value of the previously held interest amounted to $867 million.

The table below summarizes the estimated fair values of SIF S.A.'s assets acquired and liabilities assumed. The fair values of property, plant and equipment and intangible assets were based on estimates determined by an independent appraiser. Management has determined that resulting SIF S.A.'s goodwill primarily reflects the control premium paid for the acquisition and future synergies from using SIF S.A. assets for marketing Group products in Europe and USA.

	USD'mln
Current assets	
Cash and cash equivalents	112.8
Accounts receivable and advances given, net	685.8
Inventories, net	1,169.5
Other current assets	26.9
	1,995.0
Non-current assets	
Intangible assets	11.6
Property, plant and equipment	1,735.3
Deferred tax assets	270.7
Other non-current assets	0.7
	2,018.3
Total assets	**4,013.3**
Current liabilities	
Accounts payable and other liabilities	(1,130.2)
Other current liabilities	(860.2)
	(1,990.4)
Non-current liabilities	
Deferred income tax liability	(380.2)
Other long-term liabilities	(1,065.4)
	(1,445.6)
Total liabilities	**(3,436.0)**
Net assets acquired	**577.3**
Purchase consideration	867.0
Goodwill	**289.7**

(b) Partial disposal of investment in NBH

In September 2013 the Group signed an agreement with Societe Wallonne de Gestion et de Participations S.A. (SOGEPA), a Belgian state-owned company, to sell a 20.5% stake in SIF S.A.'s subsidiary – 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 the Group and SOGEPA by their representation on the Board of Directors of NBH.

19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A. AND NLMK BELGIUM HOLDINGS S.A. SHARES (continued)

The 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 the Group over NBH and therefore NBH was deconsolidated from the Group consolidated financial statements with effect from September 30, 2013.

The fair value of the Group's remaining 79.5% interest in 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. This stake in the amount of $459.2 million was 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.

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

Information about the Group's operations with SIF S.A. and NBH is disclosed in Note 22.

The carrying amounts of assets and liabilities of NBH as at the date of disposal 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**

19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A. AND NLMK BELGIUM HOLDINGS S.A. SHARES (continued)

Information on NBH's operations from January 1, 2013 to the date of disposal is as follows:

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

Revenue and net loss of NBH for the fourth quarter of 2013 amounted to $420,513 and $(70,882), respectively.

Summarized financial information for NBH as at December 31, 2013 is as follows:

	USD'mln
Current assets	993.0
Non-current assets	1,101.2
Total assets	**2,094.2**
Current liabilities	(819.4)
Non-current liabilities	(963.0)
Total liabilities	**(1,782.4)**
Equity	**311.8**

The Group's share in NBH's net loss from the date of disposal to December 31, 2013 amounted to $(54,218) and is included in "Equity in net (losses) / earnings of associates" line in the consolidated statements of income.

Fair value of options

In September 2013 SOGEPA and the Group also signed an option agreement, which provides call options for the Group and put options for SOGEPA 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 million as at December 31, 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 the underlying shares.

20 SEGMENT INFORMATION

The Group has four reportable business segments: steel, foreign rolled products (Note 19), 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 foreign rolled products (Note 19) and the steel segments.

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20 SEGMENT INFORMATION (continued)

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, 2013 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,468,371	2,740,056	1,328,178	372,210	627	10,909,442	-	10,909,442
Intersegment revenue	1,396,165	1,698	388,149	978,765	-	2,764,777	(2,764,777)	-
Depreciation and amortization	(538,837)	(163,193)	(87,958)	(71,482)	(46)	(861,516)	-	(861,516)
Gross profit / (loss)	**1,190,897**	**(33,739)**	**204,281**	**923,749**	**312**	**2,285,500**	**(166,095)**	**2,119,405**
Operating income / (loss)	**98,110**	**(257,182)**	**6,807**	**788,308**	**(2,513)**	**633,530**	**10,286**	**643,816**
Interest income	208,412	658	5,914	24,540	1,147	240,671	(200,430)	40,241
Interest expense	(150,181)	(51,143)	(112,869)	-	(106)	(314,299)	200,430	(113,869)
Income tax	(57,655)	(45,380)	(3,445)	(116,806)	(232)	(223,518)	1,581	(221,937)
Income / (loss), net of income tax	**160,479**	**(343,533)**	**187,042**	**762,328**	**(114)**	**766,202**	**(504,658)**	**261,544**
Segment assets, including goodwill	13,046,727	1,925,216	2,781,821	2,374,010	62,838	20,190,612	(3,906,531)	16,284,081
Capital expenditures	(391,476)	(48,483)	(179,791)	(125,663)	(10,877)	(756,290)	-	(756,290)

Segmental information for the year ended 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	7,149,802	3,466,682	1,198,660	340,776	672	12,156,592	-	12,156,592
Intersegment revenue	1,526,183	1,336	446,057	996,889	-	2,970,465	(2,970,465)	-
Depreciation and amortization	(416,897)	(198,500)	(84,787)	(67,479)	(52)	(767,715)	-	(767,715)
Gross profit / (loss)	**1,728,436**	**(71,609)**	**273,209**	**922,654**	**504**	**2,853,194**	**41,245**	**2,894,439**
Operating income / (loss)	**551,072**	**(346,901)**	**85,696**	**793,094**	**(2,316)**	**1,080,645**	**52,130**	**1,132,775**
Interest income	254,444	1,442	4,170	20,182	1,242	281,480	(252,899)	28,581
Interest expense	(98,877)	(53,838)	(168,622)	-	(24)	(321,361)	252,899	(68,462)
Income tax	(161,158)	41,829	(16,085)	(160,823)	(372)	(296,609)	(8,103)	(304,712)
Income / (loss), net of income tax	**817,389**	**(429,860)**	**(40,140)**	**618,056**	**580**	**966,025**	**(355,868)**	**610,157**
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
Capital expenditures	(747,608)	(173,174)	(300,214)	(230,010)	(2,380)	(1,453,386)	-	(1,453,386)

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20 SEGMENT INFORMATION (continued)

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)
Gross profit / (loss)	**2,186,262**	**(60,531)**	**208,426**	**1,075,097**	**576**	**3,409,830**	**(50,224)**	**3,359,606**
Operating income / (loss)	**1,075,282**	**(305,210)**	**(54,714)**	**991,854**	**(851)**	**1,706,361**	**(40,682)**	**1,665,679**
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)
Income / (loss), net of income tax	**1,159,764**	**(326,688)**	**(317,333)**	**840,543**	**1,902**	**1,358,188**	**(97,058)**	**1,261,130**
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)

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, 2013, 2012 and 2011, is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Russia	4,373,360	4,398,398	4,462,871
European Union	2,073,889	2,538,793	2,771,159
Middle East, including Turkey	875,412	902,346	1,238,150
North America	1,558,876	1,646,819	1,189,609
Asia and Oceania	794,218	1,364,965	997,546
Other regions	1,233,687	1,305,271	1,069,221
	10,909,442	**12,156,592**	**11,728,556**

Geographically, all significant assets, production and administrative facilities of the Group are substantially located in Russia, USA and Europe.

21 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 legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 23(f)).

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21 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 political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of Russian ruble. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are difficult to determine at this stage. The financial markets are currently uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict.

In 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.

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.

(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 comprises 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 risks. 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, 2013 is as follows:

	US dollar	**Euro**	**Other currencies**
Cash and cash equivalents	525,891	164,358	3,862
Accounts receivable and advances given	231,859	422,620	44,549
Short-term investments	350,303	107,565	-
Long-term investments	-	490,829	-
Accounts payable and other liabilities	(167,925)	(97,416)	(33,592)
Current income tax liability	(20,352)	(700)	(13)
Short-term borrowings	(460,582)	(170,673)	-
Long-term borrowings	(1,400,000)	(682,761)	-
Other long-term liabilities	(9,996)	(29,648)	-

21 RISKS AND UNCERTAINTIES (continued)

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 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.

22 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850, *Related Party Disclosures*. Balances as at December 31, 2013, 2012 and 2011 and transactions for the years ended December 31, 2013, 2012 and 2011 with related parties of the Group consist of the following:

22 RELATED PARTY TRANSACTIONS (continued)

(a) Sales to and purchases from related parties

Sales

Sales to associates (NBH group in 2013 and SIF group in 2011) were $227,697 and $726,627 for the years ended December 31, 2013 and 2011, respectively. Sales to other related parties were $9,079, $11,320 and $12,807 for the years ended December 31, 2013, 2012 and 2011, respectively.

Accounts receivable and advances given to related parties equaled $330,986 ($294,213 out of that amount relate to NBH group), $39,930 and $45,978 as at December 31, 2013, 2012 and 2011, respectively.

Purchases

Purchases from companies under common control (transportation services rendered by companies of Universal Cargo Logistics Holding group) were $411,256, $521,331 and $342,493 for the years ended December 31, 2013, 2012 and 2011, respectively. Purchases from other related parties were $16,334, $11,366 and $81,100 for the years ended December 31, 2013, 2012 and 2011, respectively.

Accounts payable to related parties were $21,512, $6,837 and $3,453 as at December 31, 2013, 2012 and 2011, respectively.

(b) Financial transactions

Loans, issued to NBH group companies (Note 19(b)) and accounted for under short-term and long-term investments, amounted to $185,595 as at December 31, 2013.

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 $92,449, $77,079 and $56,395 as at December 31, 2013, 2012 and 2011, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2013, 2012 and 2011 amounted to $3,344, $1,361 and $873, respectively.

(c) Financial guarantees issued

As at December 31, 2013 guarantees issued by the Group for borrowings of NBH group companies' amounted to $790,618, which is the maximum potential amount of future payments. Corresponding guarantees were accounted for within the Group as at December 31, 2012 and 2011. As at December 31, 2012 and 2011 the Group did not have guarantees issued for the loans of companies outside the Group. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses probability of cash outflows, related to these guarantees, as low.

(d) 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 16).

(e) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to $6,517, $13,151 and $6,589 in 2013, 2012 and 2011, respectively. The Group has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

23 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to 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.

23 COMMITMENTS AND CONTINGENCIES (continued)

(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.

Initiated in January 2010 by the non-controlling shareholder of OJSC Maxi-Group (Note 13) court proceeding at the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (hereinafter, ICA Court) regarding the enforcement of the additional payment by the Parent Company for the shares of OJSC Maxi-Group ended in January 2012 in favor to the Parent Company.

Initiated in December 2012 by the non-controlling shareholder of OJSC Maxi-Group court proceeding at ICA Court regarding the loss of assets in connection with a share-purchase agreement ended in January 2014. Arbitrators stated that ICA Court lacks jurisdiction to adjudicate the claim of Maxi-Group’s non-controlling shareholder against the Parent Company and terminated examinations.

No further appeal is possible in these claims.

Recently there are still few court proceedings initiated by the non-controlling shareholder of OJSC Maxi-Group going on in certain European courts and related to the claim filed to ICA Court in January 2010. The Group’s management considers the probability of unfavorable outcome in connection with these court proceedings is low and accordingly, no accruals in relation to these claims were made in these 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 $498,557, $712,527 and $1,396,561 as at December 31, 2013, 2012 and 2011, 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.

23 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 the Group’s operations.

As at December 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. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

24 SUBSEQUENT EVENTS

The Group’s management has performed an evaluation of subsequent events and did not find any through the period from January 1, 2014 to March 27, 2014, which is the date when these consolidated financial statements were available to be issued.