**OJSC NOVOLIPETSK STEEL**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

**(WITH REPORT OF INDEPENDENT AUDITORS THEREON)**

## CONTENTS

Report of Independent Auditors 3

Consolidated balance sheets 4

Consolidated statements of income 5

Consolidated statements of cash flows 6

Consolidated statements of stockholders' equity and comprehensive income 8

Notes to the consolidated financial statements 9 – 37

## *Report of Independent Auditors*

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries (the "Group") as of December 31, 2011, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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March 24, 2012

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| | Note | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 4 | 797,169 | 747,979 | 1,247,048 |
| Short-term investments | 5 | 227,279 | 422,643 | 451,910 |
| Accounts receivable and advances given, net | 6 | 1,572,641 | 1,259,596 | 913,192 |
| Inventories, net | 7 | 2,828,433 | 1,580,068 | 1,134,095 |
| Other current assets | | 59,355 | 51,994 | 58,034 |
| Deferred income tax assets | 17 | 18,887 | 43,069 | 72,467 |
| | | **5,503,764** | **4,105,349** | **3,876,746** |
| **Non-current assets** | | | | |
| Long-term investments | 5 | 8,420 | 687,665 | 468,236 |
| Property, plant and equipment, net | 8 | 10,569,828 | 8,382,478 | 7,316,180 |
| Intangible assets, net | 9(b) | 158,611 | 181,136 | 203,490 |
| Goodwill | 9(a) | 760,166 | 494,654 | 556,636 |
| Deferred income tax assets | 17 | 237,113 | 21,387 | 12,199 |
| Other non-current assets | | 19,274 | 26,356 | 68,457 |
| | | **11,753,412** | **9,793,676** | **8,625,198** |
| **Total assets** | | **17,257,176** | **13,899,025** | **12,501,944** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and other liabilities | 10 | 1,622,679 | 1,107,434 | 841,230 |
| Short-term borrowings | 11 | 1,306,263 | 525,559 | 556,563 |
| Current income tax liability | | 10,994 | 18,803 | 19,419 |
| | | **2,939,936** | **1,651,796** | **1,417,212** |
| **Non-current liabilities** | | | | |
| Deferred income tax liability | 17 | 713,666 | 400,601 | 396,306 |
| Long-term borrowings | 11 | 3,073,535 | 2,098,863 | 1,938,652 |
| Other long-term liabilities | 12 | 424,878 | 193,951 | 139,906 |
| | | **4,212,079** | **2,693,415** | **2,474,864** |
| **Total liabilities** | | **7,152,015** | **4,345,211** | **3,892,076** |
| **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, 2011, 2010 and 2009 | 14(a) | 221,173 | 221,173 | 221,173 |
| Statutory reserve | | 10,267 | 10,267 | 10,267 |
| Additional paid-in capital | | 306,391 | 98,752 | 112,450 |
| Accumulated other comprehensive loss | | (1,489,442) | (916,901) | (796,756) |
| Retained earnings | | 11,098,635 | 10,261,214 | 9,171,068 |
| | | **10,147,024** | **9,674,505** | **8,718,202** |
| **Non-controlling interest** | 13 | **(41,863)** | **(120,691)** | **(108,334)** |
| **Total stockholders' equity** | | **10,105,161** | **9,553,814** | **8,609,868** |
| **Total liabilities and stockholders' equity** | | **17,257,176** | **13,899,025** | **12,501,944** |

The consolidated financial statements as set out on pages 4 to 37 were approved on March 24, 2012.

| | Note | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|---|
| **Revenue** | 22 | **11,728,556** | **8,350,748** | **6,139,895** |
| **Cost of sales** | | | | |
| Production cost | | (7,780,243) | (4,933,236) | (3,672,245) |
| Depreciation and amortization | | (588,707) | (469,418) | (478,117) |
| | | **(8,368,950)** | **(5,402,654)** | **(4,150,362)** |
| **Gross profit** | | **3,359,606** | **2,948,094** | **1,989,533** |
| General and administrative expenses | | (556,169) | (263,146) | (297,246) |
| Selling expenses | | (972,685) | (708,868) | (654,628) |
| Taxes other than income tax | | (165,073) | (123,311) | (102,076) |
| Impairment losses | 9(a) | - | (58,179) | (43,662) |
| **Operating income** | | **1,665,679** | **1,794,590** | **891,921** |
| Loss on disposals of property, plant and equipment | | (29,293) | (9,657) | (4,420) |
| Gains / (losses) on investments, net | | 11,922 | (27,991) | (10,903) |
| Interest income | | 29,531 | 45,071 | 59,733 |
| Interest expense | | - | (15,865) | (170,905) |
| Foreign currency exchange gain / (loss), net | | 18,662 | (59,262) | (78,026) |
| Other expenses, net | 25(b) | (14,337) | (4,598) | (92,661) |
| **Income before income tax** | | **1,682,164** | **1,722,288** | **594,739** |
| Income tax expense | 17 | (421,034) | (390,972) | (181,784) |
| **Income, net of income tax** | | **1,261,130** | **1,331,316** | **412,955** |
| Equity in net earnings / (losses) of associates | 5 | 54,272 | (107,338) | (314,859) |
| **Net income** | | **1,315,402** | **1,223,978** | **98,096** |
| **Add: Net loss attributable to the non-controlling interest** | 13 | **42,192** | **31,065** | **116,959** |
| **Net income attributable to NLMK stockholders** | | **1,357,594** | **1,255,043** | **215,055** |
| **Income per share – basic and diluted:** | | | | |
| Net income attributable to NLMK stockholders per share (US dollars) | | 0.2265 | 0.2094 | 0.0359 |
| Weighted-average shares outstanding, basic and diluted (in thousands) | 16 | 5,993,227 | 5,993,227 | 5,993,227 |

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

| | Note | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Net income** | | **1,315,402** | **1,223,978** | **98,096** |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | | | |
| Depreciation and amortization | | 588,707 | 469,418 | 478,117 |
| Loss on disposals of property, plant and equipment | | 29,293 | 9,657 | 4,420 |
| (Gains) / losses on investments, net | | (11,922) | 27,991 | 10,903 |
| Equity in net (earnings) / losses of associates | 5 | (54,272) | 107,338 | 314,859 |
| Deferred income tax expense | 17 | 45,643 | 33,790 | 34,443 |
| Losses / (gains) on unrealized forward contracts | | 4,819 | (4,225) | (470,930) |
| Impairment losses | 9(a) | - | 58,179 | 43,662 |
| Other | | 24,967 | 99,735 | 21,825 |
| **Changes in operating assets and liabilities** | | | | |
| Decrease / (increase) in accounts receivable | | 130,417 | (356,198) | 493,751 |
| (Increase) / decrease in inventories | | (368,932) | (458,033) | 331,396 |
| Decrease in other current assets | | 13,495 | 5,517 | 17,193 |
| Increase in accounts payable and other liabilities | | 97,616 | 213,979 | 10,534 |
| (Decrease) / increase in current income tax payable | | (10,118) | (29) | 5,990 |
| **Net cash provided by operating activities** | | **1,805,115** | **1,431,097** | **1,394,259** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchases and construction of property, plant and equipment | | (2,047,852) | (1,463,209) | (1,120,777) |
| Proceeds from sale of property, plant and equipment | | 26,980 | 26,362 | 12,719 |
| Purchases of investments and placement of bank deposits | | (523,661) | (832,472) | (536,098) |
| Withdrawal of bank deposits, proceeds from sale of other investments and loans settled | | 717,539 | 450,255 | 510,336 |
| Payment for acquisition of interests in new subsidiaries net of cash acquired of $112,806 in 2011 | 21(a) | (41,751) | - | - |
| Acquisitions of subsidiaries, net of cash acquired of $22 in 2010 | 21(b) | - | (28,363) | - |
| Loans issued | | - | - | (403,592) |
| Settlement of abandoned acquisition | 25(b) | - | - | (234,000) |
| **Net cash used in investing activities** | | **(1,868,745)** | **(1,847,427)** | **(1,771,412)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from borrowings and notes payable | | 1,967,362 | 933,873 | 1,076,756 |
| Repayment of borrowings and notes payable | | (1,683,536) | (802,143) | (1,540,242) |
| Capital lease payments | | (32,525) | (46,356) | (69,094) |
| Dividends to shareholders | | (516,335) | (164,501) | (1,981) |
| Proceeds from disposal of assets to the entity under common control | | 313,246 | - | - |
| Dividends to non-controlling shareholders of existing subsidiaries | | - | - | (127) |
| **Net cash provided by / (used in) financing activities** | | **48,212** | **(79,127)** | **(534,688)** |
| **Net decrease in cash and cash equivalents** | | **(15,418)** | **(495,457)** | **(911,841)** |
| Effect of exchange rate changes on cash and cash equivalents | | 64,608 | (3,612) | (1,100) |
| Cash and cash equivalents at the beginning of the year | 4 | 747,979 | 1,247,048 | 2,159,989 |
| **Cash and cash equivalents at the end of the year** | 4 | **797,169** | **747,979** | **1,247,048** |

| | Note | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|---|
| **Supplemental disclosures of cash flow information:** | | | | |
| **Cash paid during the year for:** | | | | |
| Income tax | | 374,523 | 358,419 | 136,378 |
| Interest (excluding capitalized interest) | | - | 15,865 | 170,702 |
| **Non cash investing activities:** | | | | |
| Capital lease liabilities incurred | 19 | 18,430 | 97,606 | 83,186 |
| Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $112,806 in 2011 and $22 in 2010 | 21 | 464,511 | 28,363 | - |

| | Note | NLMK stockholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Common stock** | **Statutory reserve** | **Additional paid-in capital** | **Accumulated other comprehensive loss** | **Retained earnings** | **Non-controlling interest** | **Comprehensive income / (loss)** | **Total stockholders' equity** |
| **Balance at December 31, 2008** | | **221,173** | **10,267** | **52,395** | **(549,879)** | **8,956,013** | **33,100** | **-** | **8,723,069** |
| **Comprehensive loss:** | | | | | | | | | |
| Net income / (loss) | | - | - | - | - | 215,055 | (116,959) | 98,096 | 98,096 |
| Other comprehensive loss: | | | | | | | | | |
| Cumulative translation adjustment | 2(b) | - | - | - | (246,877) | | (9,583) | (256,460) | (256,460) |
| **Comprehensive loss** | | | | | | | | **(158,364)** | **(158,364)** |
| Disposal of assets to the entity under common control | 24(c) | - | - | 85,345 | - | - | (40,182) | - | 45,163 |
| Change in non-controlling interest | 13 | - | - | (25,290) | - | - | 25,290 | - | - |
| **Balance at December 31, 2009** | | **221,173** | **10,267** | **112,450** | **(796,756)** | **9,171,068** | **(108,334)** | **-** | **8,609,868** |
| **Comprehensive income:** | | | | | | | | | |
| Net income / (loss) | | - | - | - | - | 1,255,043 | (31,065) | 1,223,978 | 1,223,978 |
| Other comprehensive income: | | | | | | | | | |
| Cumulative translation adjustment | 2(b) | - | - | - | (120,145) | - | 5,010 | (115,135) | (115,135) |
| **Comprehensive income** | | | | | | | | **1,108,843** | **1,108,843** |
| Change in non-controlling interest | 13 | - | - | (13,698) | - | - | 13,698 | - | - |
| Dividends to shareholders | 14(b) | - | - | - | - | (164,897) | - | - | (164,897) |
| **Balance at December 31, 2010** | | **221,173** | **10,267** | **98,752** | **(916,901)** | **10,261,214** | **(120,691)** | **-** | **9,553,814** |
| **Comprehensive income:** | | | | | | | | | |
| Net income / (loss) | | - | - | - | - | 1,357,594 | (42,192) | 1,315,402 | 1,315,402 |
| Other comprehensive income: | | | | | | | | | |
| Cumulative translation adjustment | 2(b) | - | - | - | (572,541) | - | 4,991 | (567,550) | (567,550) |
| **Comprehensive income** | | | | | | | | **747,852** | **747,852** |
| Disposal of assets to the entity under common control | 15 | - | - | 207,639 | - | - | - | - | 207,639 |
| Change in non-controlling interest in deconsolidated subsidiaries | | - | - | - | - | - | 116,029 | - | 116,029 |
| Dividends to shareholders | 14(b) | - | - | - | - | (520,173) | - | - | (520,173) |
| **Balance at December 31, 2011** | | **221,173** | **10,267** | **306,391** | **(1,489,442)** | **11,098,635** | **(41,863)** | **-** | **10,105,161** |

## 1 BACKGROUND

OJSC Novolipetsk Steel (the “Parent Company”) and its subsidiaries (together – the “Group”) is one of the world’s leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent Company’s name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group is one of the leading global suppliers of slabs and transformer steel and one of the leading suppliers to the domestic market of high value added products including pre-painted, galvanized and electrical steel as well as a variety of long steel products. The Group also operates in the mining segment (Note 22).

The Group’s main operations are in the Russian Federation, the European Union and the USA and are subject to the legislative requirements of the subsidiaries’ state and regional authorities.

The Group’s primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, comprise:

- Mining companies OJSC Stoilensky GOK, OJSC Stagdok and OJSC Dolomite. The principal business activities of these companies are mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-Koks. The principal business activity of this company is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl. The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- LLC NLMK Long Products, OJSC NSMMZ and scrap collecting companies. The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.

The Group’s major subsidiaries, located outside the Russian Federation, comprise:

- Steel Invest & Finance (Luxembourg) S.A. (“SIF S.A.”) holds 100% interests or majority votes in 22 companies located in Europe and USA which include one steel making plant and five steel rolling facilities as well as a network of steel service centers (Note 21(a)).
- Danish steel rolling company NLMK DanSteel A/S. The principal business activity of this company is production of hot rolled plates.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. The principal business activity of these companies is sales of the Group’s products outside the Russian Federation.
- American hot rolled coils producer NLMK Indiana. The principal business activity of this company is production of hot rolled steel.

## 2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

### (a) Basis of presentation

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group’s companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”).

## 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 $(567,550), $(115,135) and $(256,460) was recorded directly in stockholders' equity in the years ended December 31, 2011, 2010 and 2009, respectively.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2011, 2010 and 2009 were 1 US dollar to 32.1961, 30.4769 and 30.2442 Russian rubles, respectively. The period weighted average exchange rates for the 1 quarter 2011, 2 quarter 2011, 3 quarter 2011 and 4 quarter 2011 were 29.2695, 27.9857, 29.0461 and 31.2304 Russian rubles to 1 US dollar, respectively. The period weighted average exchange rates for the 1 quarter 2010, 2 quarter 2010, 3 quarter 2010 and 4 quarter 2010 were 29.8903, 30.2430, 30.6200 and 30.7117 Russian rubles to 1 US dollar, respectively. The period weighted average exchange rates for the 1 quarter 2009, 2 quarter 2009, 3 quarter 2009 and 4 quarter 2009 were 33.9308, 32.2145, 31.3276 and 29.4729 Russian rubles to 1 US dollar, respectively.

### (c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant intercompany accounts and transactions have been eliminated.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied by the Group from one reporting period to another with the exception of newly adopted accounting pronouncements.

### (a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported.

Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks, bank deposits and other highly liquid short-term investments with original maturities of less than three months.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Restricted cash

Restricted cash comprise funds legally or contractually restricted as to withdrawal.

### (d) Accounts receivable and loans issued

Receivables and loans issued are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' and borrowers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

### (e) Value added tax (VAT)

Output value added tax related to sales of goods (work performance, services provision) is payable to the tax authorities upon delivery of the goods (work, services) or property rights to customers. Input VAT on goods and services purchased (received) is generally recoverable against output VAT. VAT related to sales / purchases and services provision / receipt which has not been settled at the balance sheet date (VAT deferred) is 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.

### (f) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written-off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

The provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

### (g) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities using three categories: trading, held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

***Trading securities***

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

***Held-to-maturity securities***

Held-to-maturity securities are those securities which the Group has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

Premiums and discounts are amortized and recorded in the consolidated statement of income over the life of the related security held-to-maturity, as an adjustment to yield using the effective interest method.

***Available-for-sale securities***

All marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income in the stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, less tax, are determined on a specific identification basis. Dividend and interest income are recognized when earned.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Investments in associates and non-marketable securities

***Investments in associates***

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share of the total 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.

### (i) Property, plant and equipment

***Owned assets***

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses (Note 3(l)). The cost of self-constructed assets includes the cost of materials, direct 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.

## 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.

### (j) Leasing

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions where the Group is the lessee are classified into capital leases and operating leases. In a capital lease, the Group receives the major portion of economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

### (k) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Under ASC No. 350, *Intangibles - Goodwill and Other,* ("ASC No. 350") goodwill is first assessed with regard to qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. It is required to calculate the fair value of a reporting unit only if a qualitative assessment indicates that it is more likely than not that its carrying amount is more than its fair value.

The impairment test under ASC No. 350 includes a two-step approach. Under the first step, management compares fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount, if any, that the reporting unit's goodwill carrying value exceeds its "implied" fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit (both recognized and unrecognized) from the fair value of the reporting unit (as determined in the first step).

Prior to adoption of ASC No. 805, if the excess of the fair value of net assets acquired over purchase cost was determined as negative goodwill, and was allocated to the acquired non-current assets, except for deferred taxes, if any, until they were reduced to zero. After adoption of ASC No. 805, the excess of the fair value of net assets acquired over acquisition cost represents negative goodwill (or "bargain purchase") which is recognized as a gain in the consolidated statement of income during the period of the acquisition.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, mineral rights and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets held for sale that meet certain criteria are measured at the lower of their carrying amount or fair value less cost to sell.

### (m) Pension and post-retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation and other countries where the Group operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Group maintains defined benefit pension and defined contribution plans that cover the majority of its employees in Europe. The plans cover statutory and voluntary obligations and include pensions, other post-retirement benefits, e.g. long-term severance benefits and some additional benefits (Note 12).

The Group's net obligation in respect of long-term severance indemnity funds and other post-employment pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods. Any unrecognized past service costs and the fair value of any plan assets are deducted. The obligation is calculated using the projected unit credit method and is discounted to its present value.

The Parent Company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund subsequently. As such, all these benefits are considered as made under a defined contribution plan and are expensed as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees of a number of the Group's companies on retirement depending on the employment period and the salary level of the individual employee. The scheme is considered as a defined benefit plan. The expected future obligations to the employees are assessed by the Group's management and accrued in the consolidated financial statements, however these are not material.

### (n) Asset retirement obligations

The Group's land, buildings and equipment are subject to the provisions of ASC No. 410, *Asset Retirement and Environmental Obligations*. This ASC addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

The Group estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Group records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred.

The liability is accreted to its present value each period and the capitalized cost is depreciated in accordance with the Group's depreciation policies for property, plant and equipment. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted risk-free rate.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Borrowing activities

The Group's general-purpose funding is principally obtained from commercial paper and short-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

### (p) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally 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.

### (q) 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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is 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 projected future taxable income, the reversal of existing deferred tax liabilities and tax planning strategies in making this assessment.

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

### (r) Dividends

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

### (s) 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.

### (t) Shipping and handling

The Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with the delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. The portion of this expense in selling expenses in 2009-2011 varied from 84% to 88%.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and capitalized (Note 3(i)).

### (v) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalents are defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognized as non-cash transactions.

### (w) Segment reporting

According to ASC No.280, *Segment reporting*, segment reporting follows the internal organizational and reporting structure of the Group. The Group's organization comprises four reportable segments:

- steel segment, comprising production and sales of coke and steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- foreign rolled products, comprising production and sales of steel products in Europe and the US;
- long products segment, comprising a number of steel-production facilities combined in a single production system beginning from iron scrap collection and recycling to steel-making, production of long products, reinforcing rebar, and metalware;
- mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties;

and other segments, not reported separately in the consolidated financial statements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

### (x) Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated statements of income and comprehensive income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

### (y) Recent accounting standards

In December 2010, the FASB issued ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. The Group adopted ASU 2010-28 from January 1, 2011. The adoption of ASU 2010-28 did not have an impact on the Group's consolidated financial position and results of operations.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. The Group adopted ASU 2010-29 for business combinations occurred from January 1, 2011. The adoption of ASU 2010-29 did not have an impact on the Group's consolidated financial position and results of operations.

**New pronouncements**

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 modifies the fair value measurement requirements and updates the wording to converge with IFRS. ASU 2011-04 becomes effective for the Group on January 1, 2012. Management is currently evaluating the potential impact of these changes on the Group's consolidated financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under these amendments an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These amendments eliminate the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 becomes effective for the Group on January 1, 2012. The Group believes the adoption of ASU 2011-05 will impact only the presentation of comprehensive income.

In September 2011, the FASB approved ASU 2011-08: *Testing Goodwill for Impairment - Intangibles – Goodwill and Other (Topic 350)*. The amendments in ASU 2011-08 will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Earlier adoption is permitted. The Group early adopted ASU 2011-08 from 1 October 2011. The Group management assessed qualitative factors for impairment of goodwill as at December 31, 2011 that indicated no need for further impairment testing.

In December 2011, the FASB issued ASU 2011-12: *Comprehensive Income (Topic 220)*. The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. Taking into account that Update 2011-05 will have not a significant impact on the Group's financial position and results of operations, the Update 2011-12 also will have no significant impact on the Group's financial position and results of operations.

## 4 CASH AND CASH EQUIVALENTS

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| Cash – Russian rubles | 54,448 | 131,555 | 79,793 |
| Cash – US dollars | 45,820 | 117,343 | 125,917 |
| Cash – other currencies | 66,561 | 45,353 | 64,197 |
| Deposits – Russian rubles | 173,644 | 151,426 | 208,514 |
| Deposits – US dollars | 290,854 | 210,743 | 729,092 |
| Deposits – Euros | 165,806 | 91,147 | 25,778 |
| Deposits – other currencies | - | 3 | 11,474 |
| Other cash equivalents | 36 | 409 | 2,283 |
| | **797,169** | **747,979** | **1,247,048** |

## 5 INVESTMENTS

Balance sheet classification of investments:

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| **Short-term investments and current portion of long-term investments** | | | |
| Loans to related parties (Note 24(b)) | - | - | 433,171 |
| Bank deposits | 226,736 | 405,784 | 7,109 |
| Other | 543 | 16,859 | 11,630 |
| | **227,279** | **422,643** | **451,910** |
| **Long-term investments** | | | |
| Loans to related parties (Note 24(b)) | - | 515,264 | 156,371 |
| Investments in associates | 7,786 | 170,192 | 311,514 |
| Other | 634 | 2,209 | 351 |
| | **8,420** | **687,665** | **468,236** |
| **Total investments** | **235,699** | **1,110,308** | **920,146** |

***Investments in associates***

| | As at December 31, 2011 Ownership | As at December 31, 2010 Ownership | As at December 31, 2009 Ownership | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|---|---|---|
| Steel Invest & Finance (Luxembourg) S.A. (Note 21(a)) | 100.00% | 50.00% | 50.00% | - | 164,009 | 305,284 |
| TBEA & NLMK (Shenyang) Metal Product Co., Ltd. | 50.00% | 50.00% | 50.00% | 7,786 | 6,183 | 6,230 |
| | | | | **7,786** | **170,192** | **311,514** |

***Steel Invest & Finance (Luxembourg) S.A. shares***

In December 2006, the Group acquired 50% of the issued shares of SIF S.A. for $805 million, previously accounted for by the Group under the equity method in line with a strategic partnership with the Duferco Group who held an equal participation in SIF S.A.'s share capital.

As at the acquisition date, the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to $27,419 and was included in the value of investment in associate.

Summarized financial information for SIF S.A. is as follows:

| | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|
| Current assets | 1,538,560 | 1,580,750 |
| Non-current assets | 1,239,440 | 1,316,182 |
| **Total assets** | **2,778,000** | **2,896,932** |
| Current liabilities | (1,368,598) | (1,086,909) |
| Non-current liabilities | (1,528,189) | (1,805,213) |
| **Total liabilities** | **(2,896,787)** | **(2,892,122)** |
| **Equity** | **(118,787)** | **4,810** |

## 5 INVESTMENTS (continued)

The revenues and net loss of SIF S.A. for the year ended December 31, 2010 and 2009 amounted to $2,820,699 and $(136,908), $2,047,806 and $(619,557), respectively. The Group's share in SIF S.A. losses amounted to $(107,338) and $(314,859) for the years ended December 31, 2010 and 2009, respectively.

Information about the Group's operations with SIF S.A. and its subsidiary is disclosed in Note 24.

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group (Note 21(a)).

## 6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| Trade accounts receivable | 944,250 | 728,153 | 619,722 |
| Advances given to suppliers | 154,622 | 201,745 | 91,858 |
| VAT and other taxes receivable | 511,118 | 416,833 | 365,466 |
| Accounts receivable from employees | 2,799 | 4,035 | 3,407 |
| Other accounts receivable | 87,710 | 148,964 | 148,261 |
| | 1,700,499 | 1,499,730 | 1,228,714 |
| Allowance for doubtful debts | (127,858) | (240,134) | (315,522) |
| | **1,572,641** | **1,259,596** | **913,192** |

As at December 31, 2011, 2010 and 2009 accounts receivable of $297,902, $15,373 and nil, respectively, served as collateral for certain borrowings (Note 11).

As at December 31, 2011, 2010 and 2009, the Group had other accounts receivable of $19,010, $88,951 and $126,705, respectively, from companies for which a 100% allowance was recorded.

## 7 INVENTORIES

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| Raw materials | 1,215,944 | 870,160 | 613,940 |
| Work in process | 685,472 | 332,284 | 219,455 |
| Finished goods and goods for resale | 1,021,828 | 445,961 | 351,879 |
| | 2,923,244 | 1,648,405 | 1,185,274 |
| Provision for obsolescence | (94,811) | (68,337) | (51,179) |
| | **2,828,433** | **1,580,068** | **1,134,095** |

As at December 31, 2011, 2010 and 2009, inventories of $641,654, $27,898 and nil, respectively, served as collateral for certain borrowings (Note 11).

## 8 PROPERTY, PLANT AND EQUIPMENT

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| Land | 201,852 | 154,225 | 136,596 |
| Mineral rights | 522,577 | 534,445 | 512,106 |
| Buildings | 1,748,813 | 1,532,788 | 1,400,208 |
| Land and buildings improvements | 1,280,211 | 1,322,321 | 1,221,530 |
| Machinery and equipment | 7,336,243 | 6,150,022 | 5,850,662 |
| Vehicles | 324,953 | 364,107 | 345,213 |
| Construction in progress and advances for construction and acquisition of property, plant and equipment | 4,630,558 | 3,519,758 | 2,817,937 |
| Leased assets (Note 18) | 125,897 | 372,405 | 328,204 |
| Other | 125,585 | 72,168 | 68,398 |
| | 16,296,689 | 14,022,239 | 12,680,854 |
| Accumulated depreciation | (5,726,861) | (5,639,761) | (5,364,674) |
| | **10,569,828** | **8,382,478** | **7,316,180** |

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, 2011 is $27,193.

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, 2011 is $36,456.

The other mineral rights relate to the mining segment, and were acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at December 31, 2011 is $205,544. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2011, 2010 and 2009, property, plant and equipment of $541,928, $19,654 and $45,647 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are $171,764, $173,402 and $29,693 for the years ended December 31, 2011, 2010 and 2009, respectively.

## 9 GOODWILL AND INTANGIBLE ASSETS

### (a) Goodwill

| | |
|---|---|
| **Balance as at December 31, 2008** | **613,668** |
| Goodwill impairment | (43,662) |
| Cumulative translation adjustment | (13,370) |
| **Balance as at December 31, 2009** | **556,636** |
| Goodwill impairment | (58,179) |
| Cumulative translation adjustment | (3,803) |
| **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** |

## 9 GOODWILL AND INTANGIBLE ASSETS (continued)

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2011 of a controlling interest in SIF S.A. (Note 21(a)) amounted to $289,711. This goodwill was preliminarily assigned to foreign rolled products segment.

As at December 31, 2011 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to $312,523, $5,755, $116,451 and $325,437, respectively.

***Goodwill impairment***

The Group performed a test for impairment of goodwill as at December 31, 2010 and 2009 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result the Group determined that the goodwill associated with the long products segment was partially impaired, recording an estimated charge of $58,179 and $43,662 in "Impairment losses" line in the consolidated statement of income for the years ended December 31, 2010 and 2009, respectively. The Group's management believes that the recent global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill.

Pursuant to early adopted revised ASU 2011-08, the Group assessed qualitative factors for impairment of goodwill as at December 31, 2011 that indicated no need for further impairment testing.

### (b) Intangible assets

| | Subsidiary | Total useful life, months | Gross book value as at December 31, 2011 | Gross book value as at December 31, 2010 | Gross book value as at December 31, 2009 |
|---|---|---|---|---|---|
| Industrial intellectual property | SIF S.A. | 60 | 2,503 | - | - |
| Industrial intellectual property | LLC VIZ-Stahl | 149 | 53,074 | 56,068 | 56,499 |
| Customer base | LLC VIZ-Stahl | 125 | 100,794 | 106,480 | 107,299 |
| Customers relationships | NLMK DanSteel A/S | 72 | 4,080 | 4,310 | 4,344 |
| Beneficial lease interest | NLMK Indiana | 38 | 8,700 | 8,700 | 8,700 |
| Customers relationships (electricity) | NLMK Indiana | 18 | - | 7,200 | 7,200 |
| Customer base | Novexco, Novex | 180 | 89,910 | 89,910 | 89,910 |
| | | | 259,061 | 272,668 | 273,952 |
| Accumulated amortization | | | (100,450) | (91,532) | (70,462) |
| | | | **158,611** | **181,136** | **203,490** |

The intangible assets were acquired in business combinations and met the criteria for separate recognition outlined in ASC No. 805. They were recorded under the provisions of ASC No. 805 at fair values at the date of acquisition, based on their appraised values. Aggregated amortization expense amounted to $14,850, $16,268 and $23,102 for the years ended December 31, 2011, 2010 and 2009, respectively.

| **Estimated amortization expense in subsequent annual periods** | |
|---|---|
| 2012 | (22,550) |
| 2013 | (20,047) |
| 2014 | (20,047) |
| 2015 | (20,047) |
| 2016 and later | (75,920) |

## 10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| Trade accounts payable | 818,729 | 466,988 | 400,236 |
| Advances received | 133,402 | 199,407 | 114,472 |
| Taxes payable other than income tax | 143,379 | 120,287 | 87,402 |
| Accounts payable and accrued liabilities to employees | 199,300 | 149,827 | 130,813 |
| Dividends payable | 2,061 | 2,102 | 2,574 |
| Short-term capital lease liability (Note 18) | 14,757 | 38,430 | 30,383 |
| Other accounts payable | 311,051 | 130,393 | 75,350 |
| | **1,622,679** | **1,107,434** | **841,230** |

Other accounts payable as at December 31, 2011 include short-term part of payables to the Duferco Group for SIF S.A. shares of $145,631 (Note 21(a)).

## 11 SHORT-TERM AND LONG-TERM BORROWINGS

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| ***Parent Company*** | | | |
| Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2012-2019 | 757,788 | 582,192 | - |
| Loan, RUR denominated, with interest rate 8.5% per annum, mature 2013 | 310,958 | - | - |
| Bonds, RUR denominated, with interest rate from 7.75% to 10.75% per annum, mature 2012-2014 | 1,416,108 | 835,059 | 502,627 |
| Loans, US$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2012-2013 | 678,077 | 1,104,707 | 1,506,580 |
| ***Companies of the Long products segment*** | | | |
| **Russian rubles** | | | |
| Loans with interest rates from 15% to 16% per annum, mature 2011 | - | - | 317,086 |
| Bonds with interest rate 10% per annum, mature 2011 | - | - | 227 |
| Other borrowings | 1,812 | 1,844 | 59,315 |
| **US dollars** | | | |
| Loans with interest rate LIBOR (1 m) +3.75% per annum, mature 2011 | - | - | 19,355 |
| **Euros** | | | |
| Loans with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +3.2% per annum, mature 2012-2020 | 107,119 | 23,585 | 52,209 |
| Other borrowings | 705 | 4,416 | 11,277 |

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

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| ***Companies of the Foreign rolled products segment*** | | | |
| Loans, US$ denominated, with interest rates from LIBOR +1.625 and PRIME +0.625 to 5.25% per annum, mature 2012-2013 | 51,347 | 28,819 | - |
| Loans, EURO denominated, with interest rates from EURIBOR +0.5% to EURIBOR +2% and 4.34% per annum, mature 2012-2020 | 1,014,160 | - | - |
| Other borrowings | 2 | - | - |
| ***Other companies*** | | | |
| Loan, RUR denominated, with interest rate 10% per annum | 30,771 | 29,019 | 26,538 |
| Loans, EURO denominated, with interest rate EURIBOR (6 m) +5.5% per annum, mature 2012-2013 | 1,648 | 2,910 | - |
| Other borrowings | 9,303 | 11,871 | 1 |
| | **4,379,798** | **2,624,422** | **2,495,215** |
| Less: short-term loans and current maturities of long-term loans | (1,306,263) | (525,559) | (556,563) |
| **Long-term borrowings** | **3,073,535** | **2,098,863** | **1,938,652** |

The Group's long-term borrowings as at December 31, 2011 mature between 2 to 8 years.

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

| | |
|---|---|
| 2013 | 1,408,338 |
| 2014 | 725,835 |
| 2015 | 579,782 |
| 2016 | 125,014 |
| Remainder | 234,566 |
| | **3,073,535** |

### New borrowings

The amount of loans and bonds, received by the Group under new loan agreements concluded in the year ended December 31, 2011, and outstanding as at December 31, 2011, is $1,401,285.

### Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with debt covenants as of December 31, 2011.

## 12 OTHER LONG-TERM LIABILITIES

| | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|---|---|---|---|
| Long-term capital lease liability (Note 18) | 26,389 | 191,102 | 137,592 |
| Employee benefit obligation | 115,249 | - | - |
| Other long-term liabilities | 283,240 | 2,849 | 2,314 |
| | **424,878** | **193,951** | **139,906** |

Other long-term liabilities as at December 31, 2011 include payables of $282,738 to Duferco Group for SIF S.A. shares (Note 21(a)).

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

In June 2009, the Parent Company acquired through a public auction for $44,572 interests of between 32% and 100% in three companies of the long products segment.

In accordance with the Russian legislation concerning pledges and pledge contracts terms, the auction was conducted by an independent organizer in order to discharge OJSC Maxi-Group subsidiaries' pledge obligations under its loans taken prior to the date of acquisition. The auction's starting price was determined by an independent appraiser.

In July 2009, the Parent Company acquired an additional interest of 25% in one of the abovementioned companies of the long products segment and as a result increased its direct interest in this subsidiary to a controlling stake.

As a result of these transactions between Group companies, there was an increase of non-controlling interest by $25,290 with a corresponding decrease in the additional paid-in capital.

In May 2010, the Parent Company also acquired for $20,246 an interest of 100% in an additional company of the long products segment. As a result of this transaction between Group companies, there was an increase of non-controlling interest by $13,698 with a corresponding decrease in the additional paid-in capital.

The above acquisitions were carried out for the purpose of more efficient management of the assets.

In July 2009, a non-controlling shareholder of OJSC Maxi-Group initiated legal proceedings to contest the results of the public auction, for which a court has subsequently made a judgment to refuse the stated claims (Note 25(b)).

In August 2011, the Moscow Arbitrage Court ruled to recognize OJSC Maxi-Group as bankrupt and appointed temporary management for six months. Management of the Group concluded that this bankruptcy procedure resulted in the loss of control of OJSC Maxi-Group and therefore deconsolidated this entity from the date of the court decision. Deconsolidation resulted in the derecognition of a non-controlling deficit of $149,194 related to OJSC Maxi-Group. Deconsolidation also resulted in the disposal of nominal share of 36% in OJSC NSMMZ, representing a non-controlling deficit of $33,165. The total result of the deconsolidation of OJSC Maxi-Group is a net loss of $26,830, included in "Gains / (losses) on investments, net" line in these consolidated financial statements.

## 14 STOCKHOLDERS' EQUITY

### (a) Stock

As at December 31, 2011, 2010 and 2009, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at stockholders' meetings.

## 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, 2011, 2010 and 2009, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $9,104,566, $8,990,627 and $8,154,649, converted into US dollars using exchange rates at December 31, 2011, 2010 and 2009, respectively.

The dividend policy provides for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

In September 2011, the Parent Company declared dividends for the six months ended June 30, 2011 of 1.4 Russian rubles per share for the total of $263,704 (at the historical rate).

In June 2011, the Parent Company declared dividends for the year ended December 31, 2010 of 1.82 Russian rubles per share for the total of $378,687, including interim dividends for the six months ended June 30, 2010 of 0.62 Russian ruble per share for the total of $122,218 (at the historical rate). Dividends payable amounted to $2,061 at December 31, 2011 (Note 10).

In September 2010, the Parent Company declared interim dividends for the six-month period ended June 30, 2010 of 0.62 Russian ruble per share for the total of $122,218 (at the historical rate). Dividends payable amounted to $2,102 at December 31, 2010 (Note 10).

In June 2010, the Parent Company declared dividends for the year ended December 31, 2009 of 0.22 Russian rubles per share for the total of $42,679 (at the historical rate).

In June 2009, the Parent Company declared dividends for the year ended December 31, 2008 of 2 Russian rubles per share for the total of $471,338 (at the historical rate), including interim dividends for the six months ended June 30, 2008 of 2 Russian rubles per share, declared in September 2008.

## 15 DISPOSALS OF ASSETS

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

The carrying amounts of the major classes of assets and liabilities of NTK as at the date of disposal are as follows:

| | |
|---|---|
| Current assets | 105,861 |
| Non-current assets | 264,069 |
| **Total assets** | **369,930** |
| Current liabilities | (131,281) |
| Non-current liabilities | (181,350) |
| **Total liabilities** | **(312,631)** |
| **Net assets** | **57,299** |

Information on NTK's transactions up to the date of disposal is as follows:

| | |
|---|---|
| Sales revenue | 243,685 |
| Net income | 31,346 |

## 15 DISPOSALS OF ASSETS (continued)

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors Strategic Planning Committee in April 2010, the interest in NTK was classified as a non-core asset.

The Group continues using the transportation services provided by NTK after the disposal. Accordingly, operations of NTK in these consolidated financial statements are reflected within continuing operations of the Group within the steel segment.

## 16 EARNINGS PER SHARE

| | Year ended December 31, 2011 | Year ended December 31, 2010 | Year ended December 31, 2009 |
|---|---|---|---|
| Weighted average number of shares | 5,993,227,240 | 5,993,227,240 | 5,993,227,240 |
| Net income (thousands of US dollars) | 1,357,594 | 1,255,043 | 215,055 |
| **Basic and diluted net income per share (US dollars)** | **0.2265** | **0.2094** | **0.0359** |

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2011, 2010 and 2009.

The Parent Company does not have potentially dilutive shares outstanding.

## 17 INCOME TAX

| | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|
| Current income tax expense | (375,391) | (357,182) | (147,341) |
| Deferred income tax expense: | | | |
| origination and reversal of temporary differences | (45,643) | (33,790) | (34,443) |
| **Total income tax expense** | **(421,034)** | **(390,972)** | **(181,784)** |

The corporate income tax rate applicable to the Group is predominantly 20%. The income tax rate applicable to the majority of income of foreign subsidiaries ranges from 30% to 35%.

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

| | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|
| Income before income tax | 1,682,164 | 1,722,288 | 594,739 |
| Income tax at applicable tax rate | (336,433) | (344,458) | (118,948) |
| Change in income tax: | | | |
| - effect of different tax rates | 54,644 | 5,740 | - |
| - unrecognized tax loss carry forward for current year | (112,629) | (32,797) | (40,542) |
| - other | (26,616) | (19,457) | (22,294) |
| **Total income tax expense** | **(421,034)** | **(390,972)** | **(181,784)** |

## 17 INCOME TAX (continued)

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

| | **As at December 31, 2011** | **As at December 31, 2010** | **As at December 31, 2009** |
|---|---|---|---|
| *Deferred tax assets* | | | |
| Accounts payable and other liabilities | 70,420 | 75,044 | 75,296 |
| Non-current liabilities | 2,172 | 43,841 | 33,940 |
| Accounts receivable | 6,114 | 5,658 | 11,334 |
| Net operating loss and credit carryforwards, including: | 561,567 | 194,957 | 171,183 |
| *- related to subsidiaries located in Russia (expiring in 2012-2020)* | *74,878* | *57,995* | *45,950* |
| *- related to subsidiaries located in the USA (expiring in 2012-2029)* | *138,705* | *136,962* | *125,233* |
| *- related to subsidiaries located in Europe (expiring in 2012-2029)* | *1,308* | - | - |
| *- related to subsidiaries located in Europe (no expiration)* | *346,676* | - | - |
| Less: valuation allowance | (250,724) | (54,078) | (41,566) |
| | **389,549** | **265,422** | **250,187** |
| *Deferred tax liabilities* | | | |
| Property, plant and equipment | (780,223) | (537,245) | (514,911) |
| Intangible assets | (14,847) | (23,501) | (26,375) |
| Inventories | (60,807) | (39,994) | (6,777) |
| Other | (14,559) | (7,550) | (16,467) |
| | (870,436) | (608,290) | (564,530) |
| **Total deferred tax liability, net** | **(480,887)** | **(342,868)** | **(314,343)** |

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 relevant subsidiary.

As of December 31, 2011, 2010 and 2009 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is more likely than not that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

## 18 CAPITAL LEASES

| | **Capital leases** |
|---|---|
| *Future minimum lease payments* | |
| 2012 | 24,477 |
| 2013 | 21,795 |
| 2014 | 6,750 |
| 2015 | 3,001 |
| 2016 | 2,912 |
| Remainder | 3,996 |
| **Total minimum lease payments** | **62,931** |
| Less: amount representing estimated executory costs (including taxes payable by the lessor) | (637) |
| **Net lease payments** | **62,294** |
| Less: amount representing interest | (3,918) |
| **Present value of minimum lease payments** | **58,376** |
| Short-term capital lease liability, including advances given | 19,731 |
| Less: advances given | (4,974) |
| Short-term capital lease liability (Note 10) | 14,757 |
| Long-term capital lease liability, including advances given | 38,645 |
| Less: advances given | (12,256) |
| **Long-term capital lease liability** (Note 12) | **26,389** |

The average capital lease contracts term is 6 years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2011, 2010 and 2009 varied from 2.7% to 13.5%.

Capital lease charges of $18,571, $36,773 and $23,179 were recorded for the years ended December 31, 2011, 2010 and 2009, respectively.

At December 31, 2011, 2010 and 2009, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

| | **As at December 31, 2011** | **As at December 31, 2010** | **As at December 31, 2009** |
|---|---|---|---|
| Machinery and equipment | 99,262 | 96,408 | 120,004 |
| Vehicles | 26,635 | 275,997 | 208,200 |
| | 125,897 | 372,405 | 328,204 |
| Accumulated depreciation | (30,388) | (69,661) | (57,282) |
| | **95,509** | **302,744** | **270,922** |

## 19 NON-CASH TRANSACTIONS

Approximately $24,800, $102,500 and $57,500 of the Group's 2011, 2010 and 2009 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods supplied.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

In 2011, 2010 and 2009 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2011, 2010 and 2009, were $18,430, $97,606 and $83,186, respectively.

## 20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables, and short-term loans approximate to a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments and notes receivable, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in an active market. Fair values for these investments are determined based on discounted cash flows and approximate their book values. The fair value of long term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates its book value.

The fair values of trading and available-for-sale securities are based on quoted market prices for these or similar instruments.

## 21 BUSINESS COMBINATIONS

### (a) Acquisition of Steel Invest & Finance (Luxembourg) S.A. shares

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group. This acquisition is aimed to enhance the Group's competitive strengths on the global market through the expansion of vertical integration of assets, optimization of a product portfolio and geographic diversification.

The purchase price is $600 million. The first tranche of $150 million was paid on June 30, 2011. The remaining tranches are payable in arrears in three equal annual installments. Management has assessed fair value of the purchase consideration for 50% acquired as a result of business combination as $578 million.

Management has assessed fair value of 50% shares in SIF S.A. held before the business combination as $289 million. Fair value was based on values of assets and liabilities of SIF S.A. determined by an independent appraiser. A gain of $104 million as a result of remeasuring to fair value the previously held equity interest was recognized and included in the line "Gains / (losses) on investments, net" in the consolidated statement of income.

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

The Group also recognized deferred tax assets on SIF S.A. losses carried forward as of approximately $200 million as the result of this consolidation. Most of these losses are in jurisdictions where there is an indefinite carry-forward period. The management anticipates utilization of these losses starting from 2013 and believes these assets will be recovered in the future.

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

## 21 BUSINESS COMBINATIONS (continued)

| | |
|---|---|
| Accounts receivable and advances given, net | 685,842 |
| Inventories, net | 1,169,496 |
| Other current assets | 139,680 |
| Intangible assets | 11,597 |
| Property, plant and equipment | 1,735,259 |
| Deferred tax assets | 270,670 |
| Other non-current assets | 787 |
| **Total assets acquired** | **4,013,331** |
| Accounts payable and other liabilities | (1,130,196) |
| Other current liabilities | (860,231) |
| Non-current liabilities | (1,065,347) |
| Deferred income tax liability | (380,240) |
| **Total liabilities assumed** | **(3,436,014)** |
| **Net assets acquired** | **577,317** |
| Purchase consideration | 867,028 |
| **Goodwill** | **289,711** |

For the period from the date of acquisition to December 31, 2011 SIF S.A. has contributed to the Group revenue and net income of $1,503,903 and $(285,512), respectively. If the acquisition had occurred on January 1, 2011, the Group's revenue and profit for the year ended December 31, 2011 would have been $13,014,855 and $1,407,592, respectively. If the acquisition had occurred on January 1, 2010, the Group's revenue and profit for the year ended December 31, 2010 would have been $10,393,874 and $1,153,020, respectively.

### (b) Other acquisitions

In October 2010, the Group acquired a 100% stake in LLC VMI Recycling Group which owns scrap collection and processing assets located in the Moscow region, for a consideration of $28.4 million. This acquisition is in line with NLMK's vertical integration strategy aimed at enhancing the Group's self-sufficiency in main raw materials

## 22 SEGMENT INFORMATION

Starting from July 2011 the Group changed the composition and the presentation of its reportable segments as a result of a change in the Group's structure (Note 21(a)) and internal organization. Comparative financial information has been adjusted to conform to the presentation of current period amounts.

The Group has four reportable business segments: steel, foreign rolled products, long products and mining. Results of the production of coke and coke-chemical products are now presented within the steel segment in these consolidated financial statements. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The investments in equity method investee and equity in net earnings / (losses) of associates are included in the steel segment (Note 5).

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income from continuing operations, net of income tax.

## 22 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) |

Segmental information for the year ended December 31, 2010 is as follows:

| | Steel | Foreign rolled products | Long products | Mining | All other | Totals | Inter-segmental operations and balances | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 6,703,172 | 700,251 | 864,786 | 81,364 | 1,175 | 8,350,748 | - | 8,350,748 |
| Intersegment revenue | 350,562 | - | 512,208 | 831,257 | 16 | 1,694,043 | (1,694,043) | - |
| Depreciation and amortization | (306,409) | (31,579) | (74,299) | (57,059) | (72) | (469,418) | - | (469,418) |
| **Gross profit** | **2,146,308** | **7,901** | **208,659** | **603,732** | **284** | **2,966,884** | **(18,790)** | **2,948,094** |
| **Operating income / (loss)** | **1,316,822** | **(30,972)** | **(27,811)** | **544,544** | **(914)** | **1,801,669** | **(7,079)** | **1,794,590** |
| Interest income | 286,672 | 63 | 3,240 | 82 | 1,310 | 291,367 | (246,296) | 45,071 |
| Interest expense | (15,604) | (20,845) | (225,712) | - | - | (262,161) | 246,296 | (15,865) |
| Income tax | (307,360) | 3,633 | 17,640 | (107,479) | (407) | (393,973) | 3,001 | (390,972) |
| **Income / (loss), net of income tax** | **1,466,372** | **(49,688)** | **(244,897)** | **428,173** | **1,571** | **1,601,531** | **(270,215)** | **1,331,316** |
| Segment assets, including goodwill | 12,814,485 | 652,647 | 2,276,364 | 1,195,472 | 43,092 | 16,982,060 | (3,083,035) | 13,899,025 |
| Capital expenditures | (1,063,784) | (15,291) | (254,428) | (126,241) | (3,465) | (1,463,209) | - | (1,463,209) |

## 22 SEGMENT INFORMATION (continued)

Segmental information for the year ended December 31, 2009 is as follows:

| | Steel | Foreign rolled products | Long products | Mining | All other | Totals | Inter-segmental operations and balances | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 5,066,531 | 410,619 | 572,476 | 84,997 | 5,272 | 6,139,895 | - | 6,139,895 |
| Intersegment revenue | 190,385 | - | 309,984 | 430,457 | 41 | 930,867 | (930,867) | - |
| Depreciation and amortization | (287,548) | (36,033) | (72,504) | (81,232) | (800) | (478,117) | - | (478,117) |
| **Gross profit / (loss)** | **1,715,569** | **(31,184)** | **51,844** | **216,904** | **2,330** | **1,955,463** | **34,070** | **1,989,533** |
| **Operating income / (loss)** | **898,769** | **(64,632)** | **(141,753)** | **159,780** | **1,410** | **853,574** | **38,347** | **891,921** |
| Interest income | 198,413 | - | 2,797 | 11,802 | 1,196 | 214,208 | (154,475) | 59,733 |
| Interest expense | (87,017) | (19,276) | (226,598) | (33) | (4) | (332,928) | 162,023 | (170,905) |
| Income tax | (183,275) | 13,028 | 21,612 | (27,346) | (806) | (176,787) | (4,997) | (181,784) |
| **Income / (loss), net of income tax** | **1,240,577** | **(90,958)** | **(400,638)** | **140,376** | **2,454** | **891,811** | **(478,856)** | **412,955** |
| Segment assets, including goodwill | 10,897,199 | 610,226 | 2,104,795 | 1,000,955 | 41,729 | 14,654,904 | (2,152,960) | 12,501,944 |
| Capital expenditures | (840,968) | (19,213) | (180,828) | (79,718) | (50) | (1,120,777) | - | (1,120,777) |

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area for the years ended December 31, 2011, 2010 and 2009, is as follows:

| | For the year ended December 31, 2011 | For the year ended December 31, 2010 | For the year ended December 31, 2009 |
|---|---|---|---|
| Russia | 4,462,871 | 3,434,379 | 2,280,492 |
| European Union | 2,771,159 | 1,802,638 | 847,098 |
| Middle East, including Turkey | 1,238,150 | 1,162,157 | 1,301,566 |
| North America | 1,189,609 | 797,183 | 300,536 |
| Asia and Oceania | 997,546 | 698,167 | 1,225,460 |
| Other regions | 1,069,221 | 456,224 | 184,743 |
| | **11,728,556** | **8,350,748** | **6,139,895** |

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

## 23 RISKS AND UNCERTAINTIES

### (a) Operating environment of the Group

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

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

## 23 RISKS AND UNCERTAINTIES (continued)

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational and legal risks.

### (b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and commodity price risk.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. To manage this risk the Group analyzes interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans and by hedging of interest rates.

***Foreign currency risk***

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risk. To minimize foreign currency risks the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency. At the same time standard hedging instruments to manage foreign currency risk might be used.

The net foreign currency position as at December 31, 2011 is as follows:

| | US dollar | Euro | Other currencies |
|---|---|---|---|
| Cash and cash equivalents | 336,674 | 228,326 | 4,040 |
| Accounts receivable and advances given | 243,954 | 623,215 | 20,637 |
| Investments | - | 1,478 | 7,786 |
| Accounts payable and other liabilities | (600,120) | (437,141) | (1,501) |
| Short-term borrowings | (454,330) | (359,228) | - |
| Long-term borrowings | (275,094) | (1,522,871) | - |

***Commodity price risk***

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group's future performance and the Group's operational results.

The Group minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

## 23 RISKS AND UNCERTAINTIES (continued)

### (c) Credit risk

Credit risk is the risk when counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group structures the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

### (d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

### (e) Insurance

To minimize its risks the Group has voluntary insurance contracts to insure property, plant and equipment, land transport and aircraft as well as certain type of cargo and purchased accident and health insurance, and medical insurance for employees, and directors and officers liability insurance (D&O). The Group also purchases operating entities civil liability coverage for dangerous production units.

## 24 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at December 31, 2011, 2010 and 2009 and transactions for the years ended December 31, 2011, 2010 and 2009 with related parties of the Group consist of the following:

### (a) Sales to and purchases from related parties

***Sales***

Sales to an associate (SIF S.A.) and one of its subsidiaries were $726,627, $777,573 and $483,546 for the years ended December 31, 2011, 2010 and 2009, respectively. Sales to other related parties were $12,807, $13,558 and $6,802 for the years ended December 31, 2010, 2009 and 2008, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $215,649 and $145,243 as at December 31, 2010 and 2009, respectively. Accounts receivable from other related parties equaled $45,978, $5,559 and $690 as at December 31, 2011, 2010 and 2009, respectively.

***Purchases***

Purchases from the subsidiary of an associate (SIF S.A.) were $978 and $1,825 for the years ended December 31, 2011 and 2010, respectively. There were no such purchases for the year ended December 31, 2009. Purchases from companies under common control, were $422,615, $37,399 and $6,683 for the years ended December 31, 2011, 2010 and 2009, respectively.

Accounts payable to the subsidiary of an associate (SIF S.A.) were $7,500 and nil as at December 31, 2010 and 2009, respectively. Accounts payable to the related parties were $3,453, $72,072 and $117 as at December 31, 2011, 2010 and 2009, respectively.

## 24 RELATED PARTY TRANSACTIONS (continued)

### (b) Financial transactions

The carrying amount of loans to an associate (SIF S.A.), including interest accrued, is $515,264 and $589,542 as at December 31, 2010 and 2009, respectively.

As at December 31, 2010 and 2009, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to $217,496 and $201,942, respectively. These guarantees are mostly issued in favor of banks.

Deposits and current accounts of the Group companies in banks under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT and OJSC Lipetskcombank) amounted to $56,395, $94,147 and $108,722 as at December 31, 2011, 2010 and 2009, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2011, 2010 and 2009 amounted to $873, $1,463 and $1,899, respectively.

During the year ended December 31, 2010, a company under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT) purchased bonds issued by the Parent Company of $11,731 (as at the date of issue).

### (c) Common control transfers and disposal of investments

In June 2011, the Parent Company has completed disposal of 100% of its interest in NTK to an entity under common control for a cash consideration of $325 million (as at the date of payment) (Note 15).

### (d) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to nil, $3,538 and $3,349 in 2011, 2010 and 2009, respectively. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

## 25 COMMITMENTS AND CONTINGENCIES

### (a) Anti-dumping investigations

The Group's export trading activities are subject to from time to time compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

### (b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the accompanying consolidated financial statements.

In July 2009, the Parent Company and OJSC Maxi-Group received a claim filed in a court in Russia from Maxi-Group's non-controlling shareholder to invalidate and reverse the results of the public auction through which NLMK acquired shares in companies, controlled by Maxi-Group (Note 13). Subsequently in November 2009, a Russian court of the first instance adjudicated against the claim from Maxi-Group's non-controlling shareholder and an appellate court upheld this decision. Accordingly, no accruals in relation to this claim were made in these consolidated financial statements.

## 25 COMMITMENTS AND CONTINGENCIES (continued)

In January 2010, the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group filed with the International Commercial Arbitration Court at the Russian Federation Chamber of Commerce and Industry (hereinafter, ICA Court) to enforce the additional payment by the Parent Company for the shares of OJSC Maxi-Group in accordance with the binding agreement. This claim is based on the non-controlling shareholder's interpretation of the binding agreement. In February 2010, as a result of due diligence of Maxi-Group entities, the Parent Company filed a counter-claim to ICA Court seeking collection from the non-controlling shareholder of OJSC Maxi-Group of excessively paid amounts for the acquired shares.

In March 2011, the ICA Court partially (in the amount of about $297 million, at the exchange rate as of December 31, 2011) satisfied the claims of Maxi-Group's non-controlling shareholder against the Parent Company. After this decision the non-controlling shareholder initiated court cases in certain European courts to enforce payment of this claim. In April 2011, the Group's management initiated proceedings to challenge the resolution of the ICA Court, sending an application to the Arbitration Court of Moscow (the court of the first instance). In June 2011, the Arbitration Court of Moscow cancelled the respective resolution of the ICA Court. In August 2011, the Federal Arbitration Court of the Moscow Circuit initiated proceedings regarding cassation appeal filed by the non-controlling shareholder of OJSC Maxi-Group on revocation of the ICA Court decision. In September 2011, Federal Arbitrage Court of Moscow region adjudicated not to change the June decision of the Arbitration Court of Moscow. In November 2011, the Supreme Commercial Court of the Russian Federation registered a claim from the non-controlling shareholder of OJSC Maxi-Group for a supervisory review of the judicial acts of the corresponding courts. In January 2012, the Board of the Supreme Commercial Court adjudicated to refuse for a supervisory review. Accordingly, no accruals in relation to this claim were made in these consolidated financial statements.

In March 2009, NLMK and DBO Holdings Inc. signed a settlement agreement with respect to their dispute concerning NLMK's abandoned acquisition of John Maneely Company, which provided for the full mutual release and discharge by the parties arising from the potential transaction and payment to DBO Holdings Inc. an amount of $234 million. This amount was fully paid to DBO Holdings Inc. in March 2009.

### (c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are 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 $1,396,561, $1,973,043 and $1,678,660 as at December 31, 2011, 2010 and 2009, respectively.

### (e) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

### (f) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities, including certain operation of intercompany financing of Russian subsidiaries within the Group, that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed, and certain expenses used for profit tax calculation may be excluded from tax returns. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

## 25 COMMITMENTS AND CONTINGENCIES (continued)

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from January 1, 2012. It introduces significant reporting and documentation requirements.

As at December 31, 2011, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

### (g) Financial guarantees issued

As at December 31, 2011, 2010 and 2009, the Group has issued guarantees amounting to nil, $218,553 and $214,148, respectively, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 24(b)). No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

## 26 SUBSEQUENT EVENTS

The Group's management has performed an evaluation of subsequent events through the period from January 1, 2012 to March 24, 2012, which is the date when these consolidated financial statements were available to be issued.