OJSC
NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

AS AT DECEMBER 31, 2012, 2011 AND 2010
AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CONTENTS

pwc

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of OJSC Novolipetsk Steel (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2012, 2011 and 2010, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries at 31 December 2012, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit

March 25, 2013

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

as at December 31, 2012, 2011 and 2010 (thousands of US dollars)

	Note	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	4	951,247	797,169	747,979
Short-term investments	5	106,906	227,279	422,643
Accounts receivable and advances given, net	6	1,490,951	1,572,641	1,259,596
Inventories, net	7	2,826,933	2,828,433	1,580,068
Other current assets		30,394	59,355	51,994
Deferred income tax assets	17	62,959	18,887	43,069
		5,469,390	**5,503,764**	**4,105,349**
Non-current assets				
Long-term investments	5	19,293	8,420	687,665
Property, plant and equipment, net	8	11,753,157	10,569,828	8,382,478
Intangible assets, net	9(b)	141,922	158,611	181,136
Goodwill	9(a)	786,141	760,166	494,654
Deferred income tax assets	17	249,565	237,113	21,387
Other non-current assets		38,052	19,274	26,356
		12,988,130	**11,753,412**	**9,793,676**
Total assets		**18,457,520**	**17,257,176**	**13,899,025**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	10	1,462,105	1,622,679	1,107,434
Short-term borrowings	11	1,816,169	1,306,263	525,559
Current income tax liability		23,800	10,994	18,803
		3,302,074	**2,939,936**	**1,651,796**
Non-current liabilities				
Deferred income tax liability	17	792,240	713,666	400,601
Long-term borrowings	11	2,815,554	3,073,535	2,098,863
Other long-term liabilities	12	457,362	424,878	193,951
		4,065,156	**4,212,079**	**2,693,415**
Total liabilities		**7,367,230**	**7,152,015**	**4,345,211**
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, 2012, 2011 and 2010	14(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		306,391	306,391	98,752
Accumulated other comprehensive loss		(997,035)	(1,489,442)	(916,901)
Retained earnings		11,582,368	11,098,635	10,261,214
		11,123,164	**10,147,024**	**9,674,505**
Non-controlling interest		**(32,874)**	**(41,863)**	**(120,691)**
Total stockholders' equity		**11,090,290**	**10,105,161**	**9,553,814**
Total liabilities and stockholders' equity		**18,457,520**	**17,257,176**	**13,899,025**

The consolidated financial statements as set out on pages 4 to 37 were approved on March 25, 2013.

	Note	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Revenue	22	**12,156,592**	**11,728,556**	**8,350,748**
Cost of sales				
Production cost		(8,494,438)	(7,780,243)	(4,933,236)
Depreciation and amortization		(767,715)	(588,707)	(469,418)
		(9,262,153)	**(8,368,950)**	**(5,402,654)**
Gross profit		**2,894,439**	**3,359,606**	**2,948,094**
General and administrative expenses		(448,268)	(556,169)	(263,146)
Selling expenses		(1,143,610)	(972,685)	(708,868)
Taxes other than income tax		(169,786)	(165,073)	(123,311)
Impairment losses	9(a)	-	-	(58,179)
Operating income		**1,132,775**	**1,665,679**	**1,794,590**
Loss on disposals of property, plant and equipment		(38,051)	(29,293)	(9,657)
(Losses) / gains on investments, net		(2,828)	11,922	(27,991)
Interest income		28,581	29,531	45,071
Interest expense		(68,462)	-	(15,865)
Foreign currency exchange gain / (loss), net		3,282	18,662	(59,262)
Other expenses, net		(140,428)	(14,337)	(4,598)
Income before income tax		**914,869**	**1,682,164**	**1,722,288**
Income tax expense	17	(304,712)	(421,034)	(390,972)
Income, net of income tax		**610,157**	**1,261,130**	**1,331,316**
Equity in net earnings / (losses) of associates	5	276	54,272	(107,338)
Net income		**610,433**	**1,315,402**	**1,223,978**
Add: Net (income) / loss attributable to the non-controlling interest		**(14,628)**	**42,192**	**31,065**
Net income attributable to NLMK stockholders		**595,805**	**1,357,594**	**1,255,043**
Earnings per share – basic and diluted:				
Net earnings attributable to NLMK stockholders per share (US dollars)		0.0994	0.2265	0.2094
Weighted-average shares outstanding, basic and diluted (in thousands)	15	5,993,227	5,993,227	5,993,227

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

Consolidated statements of comprehensive income and statements of stockholders' equity for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

Consolidated statements of comprehensive income

	Net income	Cumulative translation adjustment	**Comprehensive income**	Non-controlling interest	**Comprehensive income attributable to NLMK stockholders**
For the year ended December 31, 2010	1,223,978	(115,135)	**1,108,843**	(26,055)	**1,134,898**
For the year ended December 31, 2011	1,315,402	(567,550)	**747,852**	(37,201)	**785,053**
For the year ended December 31, 2012	610,433	490,059	**1,100,492**	12,280	**1,088,212**

Consolidated statements of stockholders' equity

		NLMK stockholders						
	Note	**Common stock**	**Statutory reserve**	**Additional paid-in capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Non-controlling interest**	**Total stockholders' equity**
Balance at December 31, 2009		**221,173**	**10,267**	**112,450**	**(796,756)**	**9,171,068**	**(108,334)**	**8,609,868**
Net income / (loss)		-	-	-	-	1,255,043	(31,065)	1,223,978
Cumulative translation adjustment	2(b)	-	-	-	(120,145)	-	5,010	(115,135)
Change in non-controlling interest		-	-	(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**
Net income / (loss)		-	-	-	-	1,357,594	(42,192)	1,315,402
Cumulative translation adjustment	2(b)	-	-	-	(572,541)	-	4,991	(567,550)
Disposal of assets to the entity under common control	16	-	-	207,639	-	-	-	207,639
Change in non-controlling interest in deconsolidated subsidiaries		-	-	-	-	-	116,029	116,029
Dividends to shareholders	14(b)	-	-	-	-	(520,173)	-	(520,173)
Balance at December 31, 2011		**221,173**	**10,267**	**306,391**	**(1,489,442)**	**11,098,635**	**(41,863)**	**10,105,161**
Net income		-	-	-	-	595,805	14,628	610,433
Cumulative translation adjustment	2(b)	-	-	-	492,407	-	(2,348)	490,059
Change in non-controlling interest							(3,291)	(3,291)
Dividends to shareholders	14(b)	-	-	-	-	(112,072)	-	(112,072)
Balance at December 31, 2012		**221,173**	**10,267**	**306,391**	**(997,035)**	**11,582,368**	**(32,874)**	**11,090,290**

for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

	Note	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**610,433**	**1,315,402**	**1,223,978**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		767,715	588,707	469,418
Loss on disposals of property, plant and equipment		38,051	29,293	9,657
Losses / (gains) on investments, net		2,828	(11,922)	27,991
Interest expense		68,462	-	-
Equity in net (earnings) / losses of associates	5	(276)	(54,272)	107,338
Deferred income tax expense	17	20,933	45,643	33,790
(Gains) / losses on unrealized forward contracts		(8,522)	4,819	(4,225)
Impairment losses	9(a)	-	-	58,179
Other		14,293	24,967	99,735
Changes in operating assets and liabilities				
Decrease / (increase) in accounts receivable		166,715	130,417	(356,198)
Decrease / (increase) in inventories		169,858	(368,932)	(458,033)
Decrease in other current assets		31,628	13,495	5,517
(Decrease) / increase in accounts payable and other liabilities		(69,932)	97,616	213,979
Increase / (decrease) in current income tax payable		12,471	(10,118)	(29)
Net cash provided by operating activities		**1,824,657**	**1,805,115**	**1,431,097**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases and construction of property, plant and equipment		(1,453,386)	(2,047,852)	(1,463,209)
Proceeds from sale of property, plant and equipment		28,692	26,980	26,362
Purchases of investments and placement of bank deposits		(144,724)	(523,661)	(832,472)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		283,044	717,539	450,255
Acquisitions of subsidiaries, net of cash acquired of $112,806 in 2011 and $22 in 2010	21	(156,510)	(41,751)	(28,363)
Net cash used in investing activities		**(1,442,884)**	**(1,868,745)**	**(1,847,427)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		1,819,425	1,967,362	933,873
Repayment of borrowings and notes payable		(1,798,836)	(1,683,536)	(802,143)
Capital lease payments		(23,116)	(32,525)	(46,356)
Dividends to shareholders		(116,529)	(516,335)	(164,501)
Proceeds from disposal of assets to an entity under common control		-	313,246	-
Net cash (used in) / provided by financing activities		**(119,056)**	**48,212**	**(79,127)**
Net increase / (decrease) in cash and cash equivalents		**262,717**	**(15,418)**	**(495,457)**
Effect of exchange rate changes on cash and cash equivalents		(108,639)	64,608	(3,612)
Cash and cash equivalents at the beginning of the year	4	797,169	747,979	1,247,048
Cash and cash equivalents at the end of the year	4	**951,247**	**797,169**	**747,979**
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		271,224	374,523	358,419
Interest (excluding capitalized interest)		68,462	-	15,865
Non cash investing activities:				
Capital lease liabilities incurred	19	29,869	18,430	97,606
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

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:

- European hot rolled, cold rolled coils and galvanized and pre-pained steel producers NLMK La Louvière S.A., NLMK Coating S.A. and NLMK Strasbourg S.A., and also producers of a wide range of plates NLMK Clabecq S.A., NLMK Verona S.p.A. and NLMK DanSteel A/S as well as a number of steel service centers located in the European Union.
- Rolled steel producers of hot rolled, cold rolled coils and galvanized steel NLMK Pennsylvania Corp. and Sharon Coating LLC and NLMK Indiana, a EAF mini-mill producing hot-rolled steel located in USA.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. The principal business activity of these companies is sales of the Group's products outside the Russian Federation.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Basis of presentation

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

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION (continued)

(b) Functional and reporting currency

In accordance with the laws of the Russian Federation the accounting records of the Parent Company are maintained, and the Parent Company's statutory financial statements for its stockholders are prepared, in Russian rubles.

Functional currency of the majority of the Group entities is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of ASC No. 830, *Foreign currency matters*. As a result of these translation procedures, a cumulative translation adjustment of $490,059, $(567,550) and $(115,135) was recorded directly in stockholders' equity in the years ended December 31, 2012, 2011 and 2010, respectively.

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

	2012	2011	2010
For the 1st quarter	30.2642	29.2698	29.8903
For the 2nd quarter	31.0139	27.9857	30.2430
For the 3rd quarter	32.0072	29.0461	30.6200
For the 4th quarter	31.0767	31.2304	30.7117
As at December 31	30.3727	32.1961	30.4769

(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.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of ASC No. 805, *Business Combinations*, ("ASC No. 805") at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by ASC No 930, *Extractive Activities – Mining,* ("ASC № 930") subtopic 360, *Property, Plant and Equipment*.

Depreciation and amortization

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated remaining useful lives of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of and land. The range of the estimated useful lives is as follows:

Buildings and constructions	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

Mineral rights are amortized using the straight-line basis over the license term given approximately even production during the period of license.

(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).

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of long-lived assets

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

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

(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. The fair value of any plan assets is deducted. The obligation is calculated using the projected unit credit method and is discounted to its present value.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 historical taxable income generation, projected future taxable income, the reversal of existing deferred tax liabilities and tax planning strategies in making this assessment.

The Group 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 2010-2012 varied from 84% to 89%.

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 pronouncements

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

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New pronouncements

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

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Cash – Russian rubles	58,922	54,448	131,555
Cash – US dollars	98,438	45,820	117,343
Cash – other currencies	183,307	66,561	45,353
Deposits – Russian rubles	441,141	173,644	151,426
Deposits – US dollars	105,940	290,854	210,743
Deposits – Euros	46,464	165,806	91,147
Deposits – other currencies	3,720	-	3
Other cash equivalents	13,315	36	409
	951,247	**797,169**	**747,979**

5 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Short-term investments and current portion of long-term investments			
Bank deposits	105,761	226,736	405,784
Other	1,145	543	16,859
	106,906	**227,279**	**422,643**
Long-term investments			
Loans to related parties (Note 24(b))	-	-	515,264
Investments in associates	8,146	7,786	170,192
Other	11,147	634	2,209
	19,293	**8,420**	**687,665**
Total investments	**126,199**	**235,699**	**1,110,308**

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

5 INVESTMENTS (continued)

Investments in associates

	As at December 31, 2012 Ownership	As at December 31, 2011 Ownership	As at December 31, 2010 Ownership	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Steel Invest & Finance (Luxembourg) S.A. (Note 21)	100.00%	100.00%	50.00%	-	-	164,009
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	50.00%	8,146	7,786	6,183
				8,146	**7,786**	**170,192**

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
Current assets	1,538,560
Non-current assets	1,239,440
Total assets	**2,778,000**
Current liabilities	(1,368,598)
Non-current liabilities	(1,528,189)
Total liabilities	**(2,896,787)**
Equity	**(118,787)**

The revenue and net loss of SIF S.A. for the year ended December 31, 2010 amounted to $2,820,699 and $(136,908), respectively. The Group's share in SIF S.A. losses amounted to $(107,338) for the year ended December 31, 2010.

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).

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Trade accounts receivable	827,826	944,250	728,153
Advances given to suppliers	105,717	154,622	201,745
VAT and other taxes receivable	562,944	511,118	416,833
Accounts receivable from employees	4,375	2,799	4,035
Other accounts receivable	152,607	87,710	148,964
	1,653,469	1,700,499	1,499,730
Allowance for doubtful debts	(162,518)	(127,858)	(240,134)
	1,490,951	**1,572,641**	**1,259,596**

As at December 31, 2012, 2011 and 2010 accounts receivable of $264,389, $297,902 and $15,373, respectively, served as collateral for certain borrowings (Note 11).

7 INVENTORIES

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Raw materials	1,201,527	1,215,944	870,160
Work in process	876,523	685,472	332,284
Finished goods and goods for resale	852,855	1,021,828	445,961
	2,930,905	2,923,244	1,648,405
Provision for obsolescence	(103,972)	(94,811)	(68,337)
	2,826,933	**2,828,433**	**1,580,068**

As at December 31, 2012, 2011 and 2010, inventories of $672,504, $641,654 and $27,898, respectively, served as collateral for certain borrowings (Note 11).

8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Land	270,882	201,852	154,225
Mineral rights	557,769	522,577	534,445
Buildings	1,937,315	1,748,813	1,532,788
Land and buildings improvements	1,384,364	1,280,211	1,322,321
Machinery and equipment	10,399,285	7,336,243	6,150,022
Vehicles	383,760	324,953	364,107
Construction in progress and advances for construction and acquisition of property, plant and equipment	3,268,252	4,630,558	3,519,758
Leased assets (Note 18)	145,328	125,897	372,405
Other	151,066	125,585	72,168
	18,498,021	16,296,689	14,022,239
Accumulated depreciation	(6,744,864)	(5,726,861)	(5,639,761)
	11,753,157	**10,569,828**	**8,382,478**

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

8 PROPERTY, PLANT AND EQUIPMENT (continued)

In March 2011, the Group acquired a license for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this license as at December 31, 2012 is $31,167.

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, 2012 is $36,106.

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, 2012 is $208,805. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2012, 2011 and 2010, property, plant and equipment of $203,838, $541,928 and $19,654 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are $197,569, $171,764 and $173,402 for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012 the Group's management considered that the low level of economic activity in Europe combined with a significant deterioration in the steel market represented a trigger for impairment testing and has performed the tests for impairment of assets.

The Group's management has combined all the entities of the European Strip Division into one reporting unit. The cash flows were calculated from January 1, 2013 until 2018-2027 for different groups of assets and then terminal values for these assets were estimated. Prices for steel products were estimated on the basis of reports of independent analysts. In addition, the Group's management has assumed that negotiations with employee representatives and governmental authorities in respect of the proposed restructuring of the NLMK La Louviere plant are successful (Note 23(a)). As a result of these calculations no impairment was recorded. Total assets as at December 31, 2012 dependent on the results of these negotiations amounted to $653,073.

9 GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

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**
Cumulative translation adjustment	25,975
Balance as at December 31, 2012	**786,141**

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) amounted to $289,711. This goodwill was assigned to the steel segment and foreign rolled products segment in the amount of $128,441 and $161,270, respectively.

As at December 31, 2012 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to $459,605, $6,100, $123,441 and $196,995, respectively.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

9 GOODWILL AND INTANGIBLE ASSETS (continued)

Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2012 and 2010 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result as at December 31, 2012 the Group determined no impairment of the tested values. As at December 31, 2010 a partial impairment of the goodwill associated with the long products segment was recognized, and an estimated charge of $58,179 in the “Impairment losses” line in the consolidated statement of income for the corresponding period was recorded. The Group’s management believes that the global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill. Key estimates used in the impairment model are consistent with those used for assets impairment tests and disclosed in Note 8 above. The discount rates of 10-14% for different assets were used.

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

(b) Intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2012	Gross book value as at December 31, 2011	Gross book value as at December 31, 2010
Customer base	LLC VIZ-Stahl	125	106,846	100,794	106,480
Industrial intellectual property	LLC VIZ-Stahl	149	56,260	53,074	56,068
Customer base	Novexco, Novex	180	89,910	89,910	89,910
Beneficial lease interest	NLMK Indiana	974	8,700	8,700	8,700
Industrial intellectual property	SIF S.A.	60	3,226	2,503	-
Customers relationships	NLMK DanSteel A/S	72	-	4,080	4,310
Customers relationships (electricity)	NLMK Indiana	18	-	-	7,200
			264,942	259,061	272,668
Accumulated amortization			(123,020)	(100,450)	(91,532)
			141,922	**158,611**	**181,136**

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 $25,919, $14,850 and $16,268 for the years ended December 31, 2012, 2011 and 2010, respectively.

Estimated amortization expense in subsequent annual periods	
2013	(24,111)
2014	(20,885)
2015	(20,885)
2016	(20,919)
2017 and later	(55,122)

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Trade accounts payable	758,044	818,729	466,988
Advances received	111,833	133,402	199,407
Taxes payable other than income tax	166,841	143,379	120,287
Accounts payable and accrued liabilities to employees	227,399	199,300	149,827
Dividends payable	1,521	2,061	2,102
Short-term capital lease liability (Note 18)	21,669	14,757	38,430
Other accounts payable	174,798	311,051	130,393
	1,462,105	**1,622,679**	**1,107,434**

Other accounts payable as at December 31, 2011 include short-term part of payables for SIF S.A. shares of $145,631 (Notes 12 and 21).

11 SHORT-TERM AND LONG-TERM BORROWINGS

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Parent Company			
Bonds, RUR denominated, with interest rate from 7.75% to 10.75% per annum, mature 2013-2015	1,669,297	1,416,108	835,059
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2013-2019	677,306	757,788	582,192
Bonds, USD denominated, with interest rate 4.95% per annum, mature 2019	506,531	-	-
Loan, RUR denominated, with interest rate 8.5% per annum, mature 2013	329,702	310,958	-
Loans, US$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2013	276,259	678,077	1,104,707
Companies of the Foreign rolled products segment			
Loans, EURO denominated, with interest rates from EURIBOR +0.5% to EURIBOR +3.5% and 4.34% per annum, mature 2013-2020	902,833	1,014,160	-
Loans, US$ denominated, with interest rates from LIBOR +1.625% and PRIME +0.625% per annum, mature 2013-2016	108,408	51,347	28,819
Other borrowings	-	2	-
Other companies			
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +1.3% per annum, mature 2013-2020	104,990	107,119	23,585
Loans, RUR denominated, with interest rate 10% per annum, mature 2013 and 2017	36,643	30,771	29,019
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +5.5% per annum, mature 2013-2022	12,783	1,648	2,910
Other borrowings	6,971	11,820	18,131
	4,631,723	**4,379,798**	**2,624,422**
Less: short-term loans and current maturities of long-term loans	(1,816,169)	(1,306,263)	(525,559)
Long-term borrowings	**2,815,554**	**3,073,535**	**2,098,863**

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

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

The Group's long-term borrowings as at December 31, 2012 mature between 2 to 10 years.

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

2014	699,041
2015	1,035,460
2016	153,512
2017	175,779
Remainder	751,762
	2,815,554

New borrowings

The amount of loans and bonds, received by the Group under new loan agreements concluded in the year ended December 31, 2012, and outstanding as at December 31, 2012, is $584,768.

Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with all debt covenants as of December 31, 2012.

12 OTHER LONG-TERM LIABILITIES

	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Long-term capital lease liability (Note 18)	34,642	26,389	191,102
Employee benefit obligation	92,592	80,458	-
Other long-term liabilities	330,128	318,031	2,849
	457,362	**424,878**	**193,951**

Other long-term liabilities as at December 31, 2012 and 2011 include payables of $282,697 and $282,738, respectively, for SIF S.A. shares (Note 21). In 2012 the repayment terms of these payables were amended to postpone the third installment to 2014.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

12 OTHER LONG-TERM LIABILITIES (continued)

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

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

In August 2011, the Moscow Arbitrage Court ruled to recognize OJSC Maxi-Group as bankrupt and appointed a temporary management for six months. Management of the Group concluded that this bankruptcy procedure resulted in the loss of control of OJSC Maxi-Group and therefore deconsolidated this entity from the date of the court decision. Deconsolidation resulted in the derecognition of a non-controlling deficit of $149,194 related to OJSC Maxi-Group. Deconsolidation also resulted in the disposal of nominal share of 36% in OJSC NSMMZ, representing a non-controlling deficit of $33,165. The total result of the deconsolidation of OJSC Maxi-Group is a net loss of $26,830, included in the “(Losses) / gains on investments, net” line in these consolidated financial statements for the year ended December 31, 2011.

14 STOCKHOLDERS’ EQUITY

(a) Stock

As at December 31, 2012, 2011 and 2010, the Parent Company’s share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders’ meetings.

14 STOCKHOLDERS' EQUITY (continued)

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at December 31, 2012, 2011 and 2010, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $10,361,802, $9,104,566 and $8,990,627, converted into US dollars using exchange rates at December 31, 2012, 2011 and 2010, 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 May 2012, the Parent Company declared dividends for the year ended December 31, 2011 of 2 Russian rubles per share for the total of $375,776, including interim dividends for the six months ended June 30, 2011 of 1.4 Russian ruble per share for the total of $263,704 (at the historical rate). Dividends payable amounted to $1,521 at December 31, 2012.

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

15 EARNINGS PER SHARE

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	595,805	1,357,594	1,255,043
Basic and diluted net earnings per share (US dollars)	**0.0994**	**0.2265**	**0.2094**

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

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2012, 2011 and 2010. The Parent Company does not have potentially dilutive shares outstanding.

16 DISPOSALS OF ASSETS

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

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

16 DISPOSALS OF ASSETS (continued)

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

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

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

Sales revenue	243,685
Net income	31,346

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

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

17 INCOME TAX

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Current income tax expense	(283,779)	(375,391)	(357,182)
Deferred income tax expense:			
origination and reversal of temporary differences	(20,933)	(45,643)	(33,790)
Total income tax expense	**(304,712)**	**(421,034)**	**(390,972)**

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%.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

17 INCOME TAX (continued)

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

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Income before income tax	914,869	1,682,164	1,722,288
Income tax at applicable tax rate	(182,974)	(336,433)	(344,458)
Change in income tax:			
- tax effect of non-deductible expenses	(40,299)	(23,235)	(19,600)
- effect of different tax rates	58,890	54,644	5,740
- unrecognized tax loss carry forward for current year	(132,468)	(112,629)	(32,797)
- other	(7,861)	(3,381)	143
Total income tax expense	**(304,712)**	**(421,034)**	**(390,972)**

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, 2012	As at December 31, 2011	As at December 31, 2010
Gross deferred tax assets			
Accounts payable and other liabilities	180,579	70,420	75,044
Non-current liabilities	643	2,172	43,841
Accounts receivable	29,068	6,114	5,658
Net operating loss and credit carryforwards, including:	763,726	561,567	194,957
- related to subsidiaries located in Russia (expiring in 2013-2020)	*82,147*	*74,878*	*57,995*
- related to subsidiaries located in the USA (expiring in 2013-2029)	*220,394*	*138,705*	*136,962*
- related to subsidiaries located in Europe (expiring in 2013-2029)	*1,734*	*1,308*	-
- related to subsidiaries located in Europe (no expiration)	*459,451*	*346,676*	-
Less: valuation allowance	(525,680)	(250,724)	(54,078)
	448,336	**389,549**	**265,422**
Gross deferred tax liabilities			
Property, plant and equipment	(869,586)	(780,223)	(537,245)
Intangible assets	(11,995)	(14,847)	(23,501)
Inventories	(43,004)	(60,807)	(39,994)
Other	(5,416)	(14,559)	(7,550)
	(930,001)	(870,436)	(608,290)
Total deferred tax liability, net	**(481,665)**	**(480,887)**	**(342,868)**

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, 2012, 2011 and 2010 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

18 CAPITAL LEASES

	Capital leases
Future minimum lease payments	
2013	34,929
2014	20,471
2015	7,879
2016	4,988
2017	3,873
Remainder	1,934
Total minimum lease payments	**74,074**
Less: amount representing estimated executory costs (including taxes payable by the lessor)	(111)
Net lease payments	**73,963**
Less: amount representing interest	(4,135)
Present value of minimum lease payments	**69,828**
Short-term capital lease liability, including advances given	27,823
Less: advances given	(6,154)
Short-term capital lease liability (Note 10)	21,669
Long-term capital lease liability, including advances given	42,005
Less: advances given	(7,363)
Long-term capital lease liability (Note 12)	**34,642**

The average capital lease contracts term is 5 years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2012, 2011 and 2010 varied from 2.7% to 14.3%.

Capital lease charges of $6,810, $18,571 and $36,773 were recorded for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, 2011 and 2010, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2012	**As at December 31, 2011**	**As at December 31, 2010**
Machinery and equipment	115,677	99,262	96,408
Vehicles	29,651	26,635	275,997
	145,328	125,897	372,405
Accumulated depreciation	(29,146)	(30,388)	(69,661)
	116,182	**95,509**	**302,744**

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

19 NON-CASH TRANSACTIONS

Approximately $8,700, $24,800 and $102,500 of the Group's 2012, 2011 and 2010 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 2012, 2011 and 2010 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, 2012, 2011 and 2010, were $29,869, $18,430 and $97,606, 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.
The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. Forward contracts are short-term with maturity dates in January-February 2013.

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

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

Fair value of forwards is determined as the sum of the differences between the market forward rate in the settlement month prevailing at December 31, 2012 and the appropriate contract settlement rate, multiplied by discounted notional amounts of the corresponding contracts. Fair value of swaps is determined as the sum of the discounted contractual cash flows in Russian rubles and US dollars as at December 31, 2012.

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

	As at December 31, 2012		**As at December 31, 2011**		**As at December 31, 2010**	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	34,551	1,196	-	-	100,240	4,105
Euro	31,912	468	-	-	-	-
	66,463	**1,664**	**-**	**-**	**100,240**	**4,105**

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

20 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

During 2012, 2011 and 2010 gains / (losses) from forward exchange contracts amounted to $9,109, $9,655 and $4,225, respectively. These gains and losses were included in "Foreign currency exchange gain / (loss), net" line in consolidated statements of income.

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

	As at December 31, 2012		**As at December 31, 2011**		**As at December 31, 2010**	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	99,931	7,264	-	-	-	-
	99,931	**7,264**	**-**	**-**	**-**	**-**

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

21 BUSINESS COMBINATIONS

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco Group. This acquisition was 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 was $600 million. The first tranche of $150 million was paid on June 30, 2011. The remaining tranches are payable in arrears in three equal annual installments. Management has assessed fair value of the purchase consideration for 50% acquired as a result of business combination as $578 million.

Management has assessed the 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 "(Losses) / gains on investments, net" line in the consolidated statement of income.

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

The 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 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.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

21 BUSINESS COMBINATIONS (continued)

Cash and cash equivalents	112,806
Accounts receivable and advances given, net	685,842
Inventories, net	1,169,496
Other current assets	26,874
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 $1,503,903 and $(285,512) to the Group revenue and net income, 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.

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) and internal organization. Comparative financial information for 2010 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.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

22 SEGMENT INFORMATION (continued)

Segmental information for the year ended December 31, 2012 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	7,149,802	3,466,682	1,198,660	340,776	672	12,156,592	-	12,156,592
Intersegment revenue	1,526,183	1,336	446,057	996,889	-	2,970,465	(2,970,465)	-
Depreciation and amortization	(416,897)	(198,500)	(84,787)	(67,479)	(52)	(767,715)	-	(767,715)
Gross profit / (loss)	**1,728,436**	**(71,609)**	**273,209**	**922,654**	**504**	**2,853,194**	**41,245**	**2,894,439**
Operating income / (loss)	**551,072**	**(346,901)**	**85,696**	**793,094**	**(2,316)**	**1,080,645**	**52,130**	**1,132,775**
Interest income	254,444	1,442	4,170	20,182	1,242	281,480	(252,899)	28,581
Interest expense	(98,877)	(53,838)	(168,622)	-	(24)	(321,361)	252,899	(68,462)
Income tax	(161,158)	41,829	(16,085)	(160,823)	(372)	(296,609)	(8,103)	(304,712)
Income / (loss), net of income tax	**817,389**	**(429,860)**	**(40,140)**	**618,056**	**580**	**966,025**	**(355,868)**	**610,157**
Segment assets, including goodwill	14,713,625	3,861,038	2,822,417	2,269,724	55,224	23,722,028	(5,264,508)	18,457,520
Capital expenditures	(747,608)	(173,174)	(300,214)	(230,010)	(2,380)	(1,453,386)	-	(1,453,386)

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)

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

22 SEGMENT INFORMATION (continued)

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)

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, 2012, 2011 and 2010, is as follows:

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Russia	4,398,398	4,462,871	3,434,379
European Union	2,538,793	2,771,159	1,802,638
Middle East, including Turkey	902,346	1,238,150	1,162,157
North America	1,646,819	1,189,609	797,183
Asia and Oceania	1,364,965	997,546	698,167
Other regions	1,305,271	1,069,221	456,224
	12,156,592	**11,728,556**	**8,350,748**

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)

In the fourth quarter of 2012, the global economic situation continued to deteriorate and this had a negative impact on steel markets, including European markets, which has resulted in, among other things, a lower level of customer demand for steel products, lower utilization rates and a downturn in steel prices.

In the fourth quarter of 2012, the management of NLMK La Louviere, a rolling facility in Belgium within the Foreign rolled products segment, formulated and announced a restructuring plan in response to decreased customer demand and continued losses. The precise parameters of the plan and its impact on the future operations of NLMK La Louviere, including the restructuring expenses, are currently being negotiated with employee representatives and local government. The Group management expects to perform this restructuring during 2013.

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

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objective of the financial risk management function is to ensure that exposure to risks stays within approved 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 conditions. 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.

and for the years ended December 31, 2012, 2011 and 2010 (thousands of US dollars)

23 RISKS AND UNCERTAINTIES (continued)

The net foreign currency position as at December 31, 2012 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	204,378	227,206	6,285
Accounts receivable and advances given	292,227	323,246	27,183
Other current assets	481	21,567	6
Accounts payable and other liabilities	(198,320)	(471,532)	(35,795)
Short-term borrowings	(391,198)	(413,114)	-
Long-term borrowings	(500,000)	(1,284,920)	-
Other long-term liabilities	(291,180)	(131,540)	-

Commodity price risk

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

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

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

(c) Credit risk

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

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

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

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

(d) Liquidity risk

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

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

(e) Insurance

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

24 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850, *Related Party Disclosures*. Balances as at December 31, 2012, 2011 and 2010 and transactions for the years ended December 31, 2012, 2011 and 2010 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 and $777,573 for the years ended December 31, 2011 and 2010, respectively. Sales to other related parties were $11,320, $12,807 and $13,558 for the years ended December 31, 2012, 2011 and 2010, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $215,649 as at December 31, 2010. Accounts receivable from other related parties equaled $39,930, $45,978 and $5,559 as at December 31, 2012, 2011 and 2010, 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. Purchases from companies under common control, were $532,697, $422,615 and $37,399 for the years ended December 31, 2012, 2011 and 2010, respectively.

Accounts payable to the subsidiary of an associate (SIF S.A.) were $7,500 as at December 31, 2010. Accounts payable to the related parties were $6,837, $3,453 and $72,072 as at December 31, 2012, 2011 and 2010, respectively.

(b) Financial transactions

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

As at December 31, 2010, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to $217,496. 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 $77,079, $56,395 and $94,147 as at December 31, 2012, 2011 and 2010, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2012, 2011 and 2010 amounted to $1,361, $873 and $1,463, 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 16).

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

Total contributions to a non-governmental pension fund and charity fund amounted to $13,151 $6,589 and $8,329 in 2012, 2011 and 2010, 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 from time to time to compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(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 January 2010, the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group (Note 13) filed with the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (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 a 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 $313 million, at the exchange rate as of December 31, 2012) 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, the 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 a supervisory review. No further appeal is possible in this claim.

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

(c) Environmental matters

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

25 COMMITMENTS AND CONTINGENCIES (continued)

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $712,527, $1,396,561 and $1,973,043 as at December 31, 2012, 2011 and 2010, respectively.

(e) Social commitments

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

(f) Tax contingencies

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

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

As at December 31, 2012, 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, 2010, the Group has issued guarantees amounting to $218,553, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 24(b)). The Group did not have financial guarantees issued as at December 31, 2012 and 2011. 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

In February 2013 the Parent Company issued eurobonds with a nominal value of $1,000 dollars per each bond (total value of $800 million), with a maturity period of 5 years and a coupon rate of 4.45% per annum.

The Group's management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from January 1, 2013 to March 25, 2013, which is the date when these consolidated financial statements were available to be issued.