ANNUAL REPORT 2013

THE LARGEST PRODUCER OF IRON ORE PRODUCTS IN RUSSIA AND THE CIS

THE THIRD-LARGEST PRODUCER OF PELLETS IN THE WORLD

THE SECOND-LARGEST IRON ORE RESOURCE BASE (14.6 BILLION TONNES ACCORDING TO IOC CLASSIFICATION)

LEADING GLOBAL PRODUCER OF MERCHANT HBI

RESOURCES CREATE OPPORTUNITIES
Metalloinvest, keeping to its long-term strategy of capitalising its resource base to increase the share of production and shipments of high added-value products, strengthens its leading positions in a highly competitive market environment.
This document and any and all information and opinions contained herein (the “Annual Report”) has been prepared by IC METALLOINVEST OJSC (the “Company”) on a voluntary basis in compliance with internal annual reporting standards of the Company, taking into account international initiatives in the field of corporate responsibility, sustainable development and non-financial reporting.

Internal standards for non-financial annual reporting adopted by the Company envisage the annual reporting cycle from January 1 to December 31 of each year. The previous non-financial annual report was published in 2013. In order to develop a dialogue with interested parties, the Company also produces the report on corporate social responsibility once every two years.

The Annual Report is addressed to a wide range of interested parties and is consolidated reflecting the major economic, financial and operating results of the Company’s activities in Russia and elsewhere around the world in 2013, and contains the results of its sustainable development initiatives of the Company provide their own annual reports, reflecting the results of their activities.

Actual figures mentioned in the Annual Report are confirmed by the consolidated financial statements certified by an independent auditor.

The Annual Report does not constitute or form part of, nor shall it not be treated as, or used as, an advertisement of securities, any offer or invitation to sell or issue any securities of the Company and/or any of its affiliates and/or any offer to purchase or subscribe for, any securities of the Company and/or any of its affiliates, or any solicitation or invitation to proceed with any investment activity, nor shall it or any part of it be the basis of or be relied on in connection with, any contract or investment decision. No representation or warranty, whether express or implied, is given by the Company, its affiliates or any of its respective consultants, members, directors, officials, employees, agents or any individuals as to the accuracy of the information or opinions or for any losses howsoever arising, directly or indirectly as a consequence of or originating in connection with any use of the Annual Report or its contents.

The Annual Report, including without limitation all the data, information and opinions listed herein, is presented as of the date of the Annual Report and may be modified without prior notification to the recipient. The Company does not assume any obligations to provide further access to any supplementary information or to update or correct any inaccuracies which may be found in the same.

The Annual Report contains certain projections and forward-looking statements, particularly (but not limited to) those relating to anticipated demand and consumption, global economic recovery, commodity prices, macroeconomic, sectoral and individual factors, trends, industry, anticipated investment and the anticipated completion of previously announced transactions. The Company will not update the Annual Report to reflect events and circumstances occurring after the date of the Annual Report. By their nature, forward-looking statements involve risks and uncertainties because they relate to facts and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors, including future levels of industry product supply, demand and pricing, operational problems, general economic conditions, political stability and economic growth, changes in laws and governmental regulations, exchange rate fluctuations, development and use of new technology, changes in public expectations and other changes in business conditions, the actions of competitors, natural disasters and adverse weather conditions, wars and acts of terrorism and sabotage, other factors discussed elsewhere in this document, as well as many other risks affecting the Company and/or any of its affiliates, and their respective operations.

The most recent information about the Company, its management, affiliates, products can be found at http://metalloinvest.com/eng/, and upon request at the Department of Corporate Communications and Department of Investor Relations (telephone: +7 (495) 981-55-55).

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Metalloinvest in 2013
1.1 Operational highlights

Metalloinvest’s 2013 results should stand as a basis for implementing the Company’s programme to increase operational, investment, and financial efficiency in the near future.
**2013 Highlights**

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<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (USD mln)</th>
<th>EBITDA (USD mln)</th>
<th>EBITDA margin (%)</th>
<th>Net income (USD mln)</th>
<th>Equity (USD mln)</th>
<th>Net debt (USD mln)</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>12,000</td>
<td>4,000</td>
<td>33.3</td>
<td>2,000</td>
<td>4,000</td>
<td>6,000</td>
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<td>2012</td>
<td>10,000</td>
<td>3,000</td>
<td>30.0</td>
<td>1,500</td>
<td>3,000</td>
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<tr>
<td>2013</td>
<td>8,000</td>
<td>2,000</td>
<td>25.0</td>
<td>1,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>
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**1.2 Key events: 2013**

**Customers**

**March**
Metalloinvest and Severstal signed a three-year contract to supply up to 3 million tonnes of iron ore concentrate.

**July**
Metalloinvest and Chelyabinsk Pipe-Rolling Plant (ChelPipe) extended a long-term cooperation agreement on supplies of pipe billets and flat steel products.

**September**
Metalloinvest organised the first Hot Briquetted Iron (HBI) Application in Steelmaking: Technology, Financing and Markets conference at Lebedinsky GOK. Over 60 representatives of leading CIS steelmaking companies, as well as Russian and international experts in steelmaking technology, financing, operations and market analysis, attended the conference.

**November**
Ural Steel hosted Metalloinvest’s Coordination Council. Russian bridge construction companies, steelwork producers and national research institutes took part in the event. The key topic of discussion at this meeting was prospects for further long-term cooperation between the conference participants in the supply of Ural Steel flat steel products to Russian bridge-builders.

Metalloinvest and Mefro Wheels Russia Plant Zainsk extended an agreement on cooperation for the supply of flat steel products to the international automotive industry for the production of car wheels.

**Capital Markets**

**February**
The Company issued rouble-denominated bonds worth RUB 10 billion (c. USD 330 million at a 2013 average nominal rouble-to-dollar exchange rate of 31.82) with a coupon rate of 8.9% per year, maturing in 2023 with early redemption in 2018. The proceeds were used to repay rouble bank loans.

**April**
Metalloinvest successfully issued Eurobonds for a total amount of USD 1 billion with a coupon rate of 5.625% per year, maturing in 2020. The funds raised were used to refinance USD 1 billion of the remaining USD 2.15 billion syndicated loan (PXF). Thus the Company significantly improved the maturity dates of its bonds, repaying USD 750 million and USD 250 million credit facilities in advance of maturity dates in 2014 and 2015, respectively.

**July**
The Board of Directors of the Moscow Interbank Currency Exchange decided to transfer the Company’s 02 and 03 series bonds, valued at RUB 10 billion and issued in February 2013, from the unlisted securities section to the B Quo-
tation List of securities admitted to MICEX. As a result, all five of the Company’s interest-bearing non-convertible documentary bonds (Series 01, 02, 03, 05, 06) are now included into Quotation List B.

December
Metalloinvest and Sberbank signed an agreement to refinance credit facilities previously extended by the bank for RUB 55 billion. The new five- and seven-year credit facilities were drawn down in January 2014 to repay credit due to Sberbank in 2014-2015 and, therefore, did not increase the total debt of the Company.

Corporate Ratings

April
Fitch Ratings revised Metalloinvest’s rating outlook from ‘stable’ to ‘positive’ and reaffirmed its ‘BB-’ long-term issuer default rating.

Standard & Poor’s Ratings Services confirmed the Company’s long-term ‘BB-’ rating and ‘positive’ outlook.

Moody’s Investor Service raised the Company’s credit rating from ‘Ba3’ to ‘Ba2’ with a stable outlook.

Products and Technology

April
Metalloinvest signed a contract with a consortium made up of Siemens VAI Metals Technologies GmbH (Austria) and Midrex Technologies, Inc. (USA) to build a third HBI plant (HBI-3 Plant) at Lebedinsky GOK with a production capacity of 1.8 million tonnes per year. It will be the largest HBI plant in the world. Total investment in the project will amount to approximately USD 850 million.

June
As part of the programme to increase the efficiency of the Company’s mining and transport complex, Lebedinsky GOK and Mikhailovsky GOK received new high-load BelAZ trucks with a maximum load capacity of 220 and 160 tonnes. Previously, the maximum load capacity of trucks at the GOKs’ open-pit mines had been 136 tonnes.

Ural Steel completed the planned decommissioning of its open-pit production in order to increase economic efficiency and environmental safety.

August
Lebedinsky GOK and Mikhailovsky GOK received four out of six Caterpillar dump trucks with a load capacity of 260 tonnes as part of the programme to increase the efficiency of the mining and transport complex. Two of the trucks began working in the open-pit mines in October 2013. The new equipment reduced unit costs, increased production efficiency and improved working conditions.

October
In order to improve production efficiency and to shift from square billet to merchant pig iron, which is currently more in demand, Metalloinvest increased Ural Steel’s pig iron casting capacity by 40% (to 1.9 million tonnes a year).

November
At the 14th technology section of Mikhailovsky GOK’s crushing and sorting plant, refitting work began to test oxidised quartzites beneficiation technology (testing of the equipment will begin in 2014).

December
Ural Steel completed the upgrade of Sintering Machine #4. The project aimed to increase sinter production efficiency. As a result of the modernisation, the plant’s production capacity increased by 10%, from 763,000 tonnes per year to a maximum level of 846,000 tonnes, and its equipment can now operate uninterrupted.

Product Quality Policy

February
Ural Steel confirmed that the quality management system at the plant complies with international standard ISO/TS 16949.

March
Ural Steel successfully completed a certification audit of the occupational health and safety management system at the plant for compliance with international standard OHSAS 18001:2007.

July
Oskol Electrometallurgical Plant (OEMK) confirmed that the environmental management system at the plant complies with international standard ISO 14001:2004.

October
Lebedinsky GOK confirmed the compliance of the occupational health and safety management system at the plant with international standard OHSAS 18001:2007.

Ural Steel successfully passed an audit of its steel products for compliance with European standards. TUV Thuringen e.V. (Erfurt, Germany) inspected steel products used in the manufacturing of vessels handling high pressures and in the European construction industry.

November

OEMK confirmed the compliance of the quality management system at the plant with international standard ISO/TS 16949:2009.

December
Corporate Governance

**February**
On February 15, a new Metalloinvest Board of Directors was elected. Ivan Streshinsky and Irina Lupicheva joined the Board. Lupicheva is the first woman to serve on the Company’s Board.

**March**
Two committees were formed within the Board of Directors: the Audit Committee and the Finance, Budgeting and Strategy Committee. The committees’ responsibilities include the preliminary consideration of the most important issues reviewed by the Board of Directors and the preparation of recommendations for appropriate action.

**October**
On October 15, a new Metalloinvest Board of Directors was elected. Ivan Streshinsky was elected Chairman of the Board. Andrey Varichev was appointed Chief Executive Officer of Management Company Metalloinvest.

**November**
The Company received an award for Best Debut Annual Report at the 16th annual Federal Annual Reports and Websites Competition.

**December**
The Company’s management was strengthened by new appointments. Andrey Ugarov was appointed First Deputy CEO, Chief Operating Officer, of Management Company Metalloinvest, and will concentrate his efforts on increasing operational efficiency. Marina Novikova was appointed Deputy CEO for Organisational Development and Human Resources Management, who will work to further develop the Company’s organisational structure and personnel policy.

Management Company Metalloinvest’s adviser on industrial policy, Yury Mishin, was elected Vice President of the International Iron Metallics Association (IIMA).

Social and Environmental Responsibility

**February**
Lebedinsky GOK and OEMK won a competition for the best occupational health and safety amongst mining and metallurgical companies in the Belgorod Region in 2012. The competition was held by the Miners’ and Metallurgical Workers’ Union of Russia and the Belgorod administration’s labour and employment department.

**March**
Metalloinvest, the Kursk Region administration and Zheleznogorsk town administration signed a Social Partnership Programme for 2013. The document provides for certain mutual obligations regarding priority investment projects to support the social development of the region and the town.

**November**

**April**
Metalloinvest and the Government of the Belgorod Region signed a Social Partnership Programme for 2013. The document specifies certain mutual obligations related to priority investment projects to support the social development of the region and the towns of Stary Oskol and Gubkin where the Company is present.

**October**
OEMK and Lebedinsky GOK received letters of acknowledgement for their contribution to environmental protection from the Federal Supervisory Natural Resources Management Service and the Duma of the Belgorod Region. Chief environmental officers received recognition for measures implemented in 2013 aimed at reducing the negative impact of the plant’s operations on the environment.

**November**
Metalloinvest, the Government of the Orenburg region and the Novotroitsk town administration signed a Social Partnership Programme for 2013. The document contains certain mutual obligations related to priority investment projects in the social development of the region and the town.

Metalloinvest provided aid to flood victims in the Far East of Russia. The Company donated RUB 50 million (more than USD 1.5 million) to the Interregional Association of Economic Partnership of the Far East and Zabaykalye. The funds were used for reconstruction works to mitigate the consequences of flooding and as targeted financial support for the local residents.
December
Metalloinvest was awarded the Diploma for Achievements in Protecting the Health of Russia’s Working Population at the 12th All-Russia “Occupation and Health” congress in Moscow.

**Subsequent Events — 2014**

February
Metalloinvest, the Kursk Region administration and Zheleznogorsk town administration signed a Social Partnership Programme for 2014. The document provides for certain mutual obligations regarding priority investment projects to support the social development of the region and the town.

Standard & Poor’s Ratings Services upgraded Metalloinvest’s long-term corporate credit rating from ‘BB-’ to ‘BB’ with a stable outlook.

March
A new executive body — the Management Board — was formed at Metalloinvest. Andrey Varichev, CEO of Management Company Metalloinvest, was appointed Chairman of the Management Board. The formation of a new executive board is aimed at further enhancing the Company’s corporate governance and reinforcing its focus on operational activity. The inclusion of Managing Directors from Metalloinvest’s divisions on the Management Board will enable the Company to determine more efficient ways for future development.

Ural Steel confirmed the compliance of its environmental protection system with the requirements of international standard ISO 14001:2004 and its occupational safety and health management system with the requirements of international standard OHSAS 18001.

Metalloinvest and the Government of the Belgorod Region signed a Social Partnership Programme for 2014. The document specifies certain mutual obligations related to priority investment projects to support the social development of the region and the towns of Stary Oskol and Gubkin where the Company is present.

Metalloinvest won the “Russian Business Leaders: Dynamism and Responsibility 2013” competition organised by the Russian Union of Industrialists and Entrepreneurs (RUIE). The Company came first in the Socially Responsible Business category, in which it was recognised for its contribution to regional development.

Metalloinvest announced a pre-export finance facility (PXF) with a syndicate of international banks including Deutsche Bank, ING, Société Générale, BNP Paribas, Credit Agricole CIB, UniCredit Bank, BTMU and Credit Suisse. The new facility is valued at USD 1.15 billion and shall be repaid in 2016-2019. It was drawn down at interest rates considerably lower than the interest rate on the preceding syndicated PXF loan due in 2015-2016, which was be refinanced with the funds received. The margin over the one-month LIBOR rate on the new facility is within the range of 125-165 bps.

April
Yevgeny Maslov was appointed Managing Director of Ural Steel. Mr. Maslov will combine the responsibilities of Managing Director with those of Chief Engineer, a position he has held since 2012.

The new Company’s Board of Directors was elected. Sergey Soldatenkov and Dmitry Tarasov were elected to the Board of Directors as Non-Executive Director and Executive Director, respectively.

The Compensation and Benefits Committee was created. Sergey Soldatenkov was appointed its Chairman.

OEMK confirmed the compliance of its occupational safety and health management system with the requirements of international standard OHSAS 18001:2007.

Metalloinvest secured a one-year contract to supply iron ore concentrate to KOKS Group. Under the agreement, the total amount of iron ore concentrate to be supplied will be more than one million tonnes.

May
Fitch Ratings upgraded the Company’s credit rating from ‘BB-‘ to ‘BB’ with a stable outlook.

As part of the programme to increase the efficiency of the mining and transport complex, heavy-duty Hitachi excavators with 23 cubic metre buckets came into operation at the open-pit mines of Lebedinsky GOK and Mikhailovsky GOK.

June
Metalloinvest and Kosaya Gora Iron Works signed a three-year pellet supply contract. The agreement states that the volume of shipped products will amount to 1.9 million tonnes. Prices will be set based on current market benchmarks. The price calculation formula takes into account price movements in the global market.
Strategy report
Message from the Chairman of the Board, Ivan Streshinsky

Dear friends!

When I took on the responsibility of leading Metalloinvest’s Board of Directors in October 2013, I relied on the key principles of corporate governance that had been developed with the support of Farhad Mohsiri during his eight years at the head of the Board. Mr. Mohsiri made an invaluable contribution to establishing Metalloinvest as a global mining company and it was under his leadership that the integration processes and formation of an effective management system were successfully completed. We would like to thank him for his efforts in developing the Company and wish him every success in the position of Chairman of the Board of USM Holdings.

An important accomplishment in 2013 was the formation of a new Board of Directors, whose main task is to oversee the long-term sustainable development of Metalloinvest. The Board’s priorities include the continued implementation of global best corporate governance practices and ensuring the Company’s greater operational and financial efficiency. The valuable experience of the new independent and non-executive directors and their engagement in the Company’s activities will enable us to successfully tackle these points. In 2013, we introduced Board meetings at our production companies’ premises. A thorough understanding of the production process, assessment of the Company’s production assets and the Board’s professional opinion allow us to take optimal decisions aimed at achieving Metalloinvest’s strategic goals. One such decision was the approval by the Board of Directors of the investment programme for 2014. The programme is the Company’s largest investment plan and provides for USD 700-750 million of expenditure.

Despite challenging conditions in 2013, Metalloinvest maintained its leading position in the highly competitive commodities market, remaining committed to its long-term strategy of capitalising its resource base by increasing the share of production and supply high-added-value products. We are pleased to report the Company’s robust financial performance in 2013 given the testing market conditions: EBITDA exceeded USD 2.2 billion. The upgrade of the Company’s credit rating by Standard & Poor’s in February and by Fitch in May 2014 is recognition of our efforts.

The Company’s sustainable development is supported by effective interaction with all stakeholders: customers, investors, employees and the communities where we are present.

Metalloinvest recognises the mutual benefits of stable and durable relationships with its customers. In 2013, we continued to strengthen our strategic cooperation with Russia’s largest steel companies, signing long-term contracts with Severstal and Magnitogorsk Iron and Steel Works (MMK).

In an effort to make the Company more open to our partners, investors and banks, we have introduced quarterly disclosure of financial indicators.

Metalloinvest’s management continued to focus on the social wellbeing of Company employees in 2013. This was evidenced by the growth in average monthly wages and an increase in spending on health and safety protection measures.

In 2013, the Company, in confirmation of its socially responsible approach to its operations, signed social partnership programmes with the administrations of all regions and municipalities where the Company’s industrial assets are located.

But we are not resting on our laurels. Much remains to be done in the near future. We are searching for solutions that will allow us to do even better in the future and be even more resilient to changing market conditions. The world changes rapidly, and we want to create a competitive base. We are focusing on reorganisation and the increase in output of products that are in the highest demand.

We see encouraging prospects. We understand how the market works and are prepared for tomorrow. We direct our knowledge, expertise and energy towards implementing the Company’s strategy.

Respectfully yours,
Ivan Streshinsky

Chairman of the Board of Directors
Message from the CEO,
Andrey Varichev

Dear partners of Metalloinvest!

2013 was a successful year for Metalloinvest. One of our priority areas last year was increasing the Company’s operational efficiency.

Our Customers

Metalloinvest has a balanced and diversified customer base. Among them are the largest metallurgical factories, machine builders, bridge builders and steel manufacturers. In 2013, the share of the Company’s revenue made up of sales to Russia and the CIS totalled 51.1%, which is comparable to 2012 (51.7%). Europe and China’s contribution to revenue amounted to 17.9% and 5.6%, respectively. Asia (excluding China) and the Middle East and North Africa constituted 6.8% and 13.2% of revenue, respectively.

The Company has the necessary technological capabilities and seeks to understand and meet the needs of its markets and every customer. An example of this approach was the Coordinating Council that we organised for Russian bridge construction and steelworks enterprises in November 2013. During this event we signed a number of key agreements to supply new types of products.

Maintaining a leading position in the market requires a well-thought-out sales policy. Against a background of improving domestic market conditions in 2013, the Company increased the supply of iron ore and pellets under long-term contracts with MMK and Severstal, and extended its long-term contract with ChelPipe. In response to market conditions in 2013, the Company prioritised merchant pig iron production, increasing pig iron casting capacity to 1.9 million tonnes per year.

At the same time, we are continuing to diversify into new markets: exports to Japan and South Korea increased in 2013.

The election of Metalloinvest’s representative Yury Mishin to the position of Vice President of the International Iron Metallics Association (IIMA) in late 2013 was confirmation that the Company and its specialists are an authority in the professional community. The association brings together companies specialising in the production and use of metal resources for steel smelting and foundry operation: manufacturers of hot briquetted iron (HBI) and direct reduced iron (DRI), merchant pig iron, as well as consumers of these products, suppliers of raw materials, specialised trading and transport companies, and engineering companies.
Our Products

In 2013, the Company shipped a total of 27.3 million tonnes of mining products and 5.7 million tonnes of steel products:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mining Segment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iron ore</td>
<td>11,109</td>
<td>12,526</td>
<td>–11.3%</td>
</tr>
<tr>
<td>Pellets</td>
<td>13,737</td>
<td>14,063</td>
<td>–2.3%</td>
</tr>
<tr>
<td>HBI/DRI</td>
<td>2,438</td>
<td>2,284</td>
<td>6.7%</td>
</tr>
<tr>
<td>Other**</td>
<td>39</td>
<td>339</td>
<td>–88.5%</td>
</tr>
<tr>
<td><strong>Steel Segment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pig iron</td>
<td>4,307</td>
<td>5,103</td>
<td>–15.6%</td>
</tr>
</tbody>
</table>

* Iron ore includes concentrate and sinter ore

** HBI fines and pellet fines from Lebedinsky GOK.

Following the adopted strategy, the Company increased shipments of HBI to 2.4 million tons (6.7% above 2012 figures).

Added value for the consumer is low phosphorus content and few sulfur impurities in the HBI, as well as few (compared with scrap) non-ferrous metal impurities, particularly copper. This makes it possible to smelt higher quality steels in electric arc furnaces and optimise the cost of metal charge. The stable chemical composition of HBI, superior in quality to metal scrap, high bulk mass, regular supplies without seasonal interruption — all of these factors contribute to reduced production and transportation costs.

Added value for the producer is created through the higher (more than double) energy efficiency of HBI production compared to the production of cast iron, and its ecological compatibility: greenhouse gas emissions in the production of HBI are practically half of those of blast furnace production.

In 2013, in response to market demands, the Company significantly (by 74.4% compared with 2012) increased shipments of merchant pig iron to a three-year high of 1.4 million tonnes. In order to meet the growing needs of customers, the Company increased merchant pig iron casting capacity by 40% to 1.9 million tonnes in 2013 by optimising technological processes and upgrading equipment.

Our Technology

Maintaining a leading position on the market requires constant work to improve operational efficiency and update the production base, as well as the implementation of a carefully designed investment programme.

In 2013, the Company implemented a set of measures for the development of mining and transport operations. The mining enterprises received high-capacity dump trucks and excavators.

Construction and installation works continued on Pellet Plant #3 at Mikhailovsky GOK in 2013. The completion of this major investment project by the end of 2014 will increase the Company’s annual production capacity by 5 million tonnes of pellets.

An important event in 2013 was the signing of a contract with a consortium made up of Siemens VAI Metals Technologies GmbH (Austria) and Midrex Technologies, Inc. (USA) to build HBI-3 Plant at Lebedinsky GOK with a production capacity of 1.8 million tonnes per year. It will be the largest HBI plant in the world.

Increasing HBI production is one of the priorities of Metalloinvest’s development strategy. To this end, in 2013, we finalised the documentation for the construction of HBI-3 Plant. Total investment in the project will total approximately USD 850 million. The construction of the new plant will strengthen the Company’s position on the global market of iron ore products with high added value. Modernisation of existing production facilities and the commissioning of the new module will make it possible to increase the share of high-added value products in the Company’s shipments.

To promote HBI in global markets, in 2013, the Company held the first international conference on the application of HBI in metallurgy. The conference was attended by over 60 representatives from leading steel enterprises of the CIS, as well as Russian and international experts in the field of steelmaking technology, economics, organisation of metallurgical production, and metallurgical raw materials markets.

The Company continued to implement its policy of minimising its negative impact on the environment. Among the most important achievements of 2013 were the completion of a comprehensive wastewater treatment system and bringing a new exhaust gas cleaning facility at OEMK into operation.
In 2013, we increased expenditures on industrial and fire safety and the protection of labour by 7% compared with 2012, spending more than USD 62 million for those purposes. We accomplished a significant reduction in the total number of accidents — 15% fewer than in 2012.

Our Personnel

Achieving operational efficiency is impossible without qualified personnel. The Company is proud of its employees and strives to provide excellent working conditions and remuneration.

The average monthly salary of employees at Metalloinvest enterprises increased by 6% in 2013 compared with 2012, exceeding the average worker salary in the regions where the Company operates by 50%.

The occupational safety and health of our 60,000-strong workforce is one of the Company’s priorities. In 2013, we increased expenditures on programmes and activities for industrial and fire safety and the protection of labour by 7% compared with 2012, spending more than USD 62 million for these purposes. We achieved a significant reduction in the total number of accidents — 15% fewer than in 2012.

In keeping with our policy of protecting the health of our employees, the Company continued the implementation of a programme to reduce occupational sickness in 2013.

We strive to ensure that the Company’s employees have the opportunity for professional growth, implementing training and distance-learning programmes. In 2013, 201 Metalloinvest staff members participated in our programmes.

Our Management

In 2013, we continued to improve our governance structure. At the end of the year, a new Board of Directors of Management Company Metalloinvest was elected.

In 2013, highly experienced managers joined the team, who are expected to make a significant contribution to a number of priority areas of our operations. Andrey Ugarov took the lead for production as First Deputy General Director of Management Company Metalloinvest. His production expertise and high level of professionalism will facilitate a boost in the Company’s operational performance. The extensive management experience of Marina Novikova, appointed Deputy General Director of Organisational Development and Personnel Management of Management Company Metalloinvest, will be directed towards the further improvement of the efficiency of the organisational structure and development of human resources policy of the Company.

In 2014, we continued to further improve corporate governance practices and review our operations. In the first quarter of 2014, a new governing body, the Management Board, was formed, made up of the managing directors of enterprises owned by Metalloinvest.

Financial Results

The wider trends in the iron ore and steel markets, along with the one-off impact of the sale of Metalloinvestrans in 2012, were reflected in the Company’s full-year results. Revenues totalled USD 7.324 billion, a decrease of 10.6% compared with the previous year. EBITDA amounted to USD 2.240 billion, which is 12.3% lower than in 2012.

The Company’s capital expenditure in 2013 totalled USD 478 million, a 3.2% increase compared to 2012 (USD 465 million). These funds were used for the implementation of the investment programme aimed at improving the efficiency of production processes.

The financial stability of the Company was enhanced by optimising its debt portfolio, securing a comfortable maturity structure and minimal payments in 2014. Net debt at the end of 2013 amounted to USD 5,443 million, down by 9.3% compared with net debt on December 31, 2012.

Prospects for 2014

The operational upgrades carried out in 2013 will serve as the foundation for the implementation of the Company’s programme to improve the efficiency of the Company’s operations, investment and financial activities in the short term. In 2014, we plan to increase capital investments substantially, by 50%, complete the modernisation programme for the mining transport fleet, continue projects to increase the efficiency of the Company’s Steel Segment, creating conditions to strengthen the Company’s competitiveness in global markets.

Respectfully yours,
Andrey Varichev
Executive Director,
CEO of METALLOINVEST
Metalloinvest is the biggest iron ore mining company in Russia and the second largest iron ore base in the world. The Company develops deposits with total proven iron ore reserves of 14.6 billion tonnes according to JORC international classifications. At current production levels, this equates to an operating lifetime of approximately 150 years.

Proven and probable ore reserves according to JORC classifications (CRU).
In 2013 the Company continued to successfully implement its long-term strategy to capitalise its one of the worldwide largest resource base by supplying high added-value products (pellets and HBI/DRI) to the global markets, incurring low costs itself.

The geography of Metalloinvest’s sales is based on conditions in individual regional markets, economic growth prospects and the possibility to deliver products to our customers via multiple routes (including overground and sea routes to Asia and Europe).

Russia is the main market for Metalloinvest products, accounting for 59.2% of output in 2013.

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>9,110</td>
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<td>29,082</td>
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</table>

While increasing supplies to major Russian customers, including under long-term contracts, and expanding our presence in markets in the Pacific Region, notably Japan and South Korea, Metalloinvest temporarily decreased supplies to China in 2013. However, in the first quarter of 2014 (according to the first quarter 2014 operational results), the Company increased supplies to China due to a doubled price premium for pellets in the Chinese market (up to USD 50 per tonne), caused by the increasingly stringent environmental requirements and subsequent changes in the structure of consumption.

We build long-term relations with our customers in key markets whom we provide with high-quality high added-value products...

The Company’s activities are based on eight strategic priorities:

1. **Effective Development of the Iron Ore Base**
2. **Market Position Consolidation in the High Added-Value Products Segment**
3. **Market Penetration and Logistic Infrastructure Development**
4. **Customer Base Development Ensuring Maximum Development Potential**
5. **Introduction of New Technologies to Maintain Low Production Costs**
6. **Maximising Steel Segment Revenue**
7. **Workforce Development, Social and Environmental Responsibility**
8. **Introduction of World-Class Standards of Corporate Governance**

Our main customers outside Russia are steelmaking plants in China, Asia, Western and Eastern Europe, the Middle East and North Africa.

The quality and technological characteristics of Metalloinvest products meet the highest requirements of our customers, each of whom has their own internal technological specifics for production processes.
Metalloinvest ships iron ore products and high-quality metal products, covering the requirements of the entire added-value chain from iron ore production to final consumption of steel products. The structure of 2013 shipments was as follows:

Almost 60% of the Mining Segment’s shipments are made up of high added-value products: pellets and HBI. Metalloinvest’s high added-value offering for consumers is the Company’s main competitive advantage and the key factor in long-term relations with its strategic partners.

Metalloinvest’s strategy provides for increasing HBI production (+6.7% compared to 2012). The Company maintains its leading position in the global merchant HBI market. The growth in products produced in electric furnaces, more strict environmental and product quality requirements, and the decrease in the volume and quality of scrap all underpin long-term demand for HBI.

The use of the most energy-efficient technologies for the production of concentrate, pellets, HBI/DRI and steel products is one of the key strategic priorities of Metalloinvest aimed at developing its production base.

In 2013 we continued to upgrade our production capacities in order to sustain our long-term position as a low-cost producer. To take advantage of opportunities in the global market for high added-value merchant iron ore products, the Company continued to invest in the construction of Pellet Plant #3, which will increase production capacity by five million tonnes.

To increase HBI/DRI production, in 2013 the Company started to build HBI-3 Plant at Lebedinsky GOK and is planning to modernise HBI-2 Plant by adding a roller press. After these works are completed, the Company’s total capacity will be 7.2 million tonnes of HBI/DRI per year.

The cost of pellet and HBI/DRI production at Metalloinvest’s plants is significantly lower than that achieved by global competitors. According to Company data, in 2013 Metalloinvest maintained its production cost levels in the 1st quartile among global manufacturers.
The main factors supporting the low cost of pellet and HBI/DRI production at Metalloinvest’s plants are:

- availability of an extensive resource base;
- absence of third-party involvement in open-pit mine development;
- use of railway to transport iron ore from the open-pit mines;
- use of low-cost magnetic separation as the primary method of iron ore beneficiation;
- “zero” transportation costs for shipping iron ore concentrate from Lebedinsky GOK to OEMK through a 26-km slurry pipeline;
- energy-efficient production technology;
- access to relatively inexpensive natural gas and electricity.

...by qualified personnel...

Achieving operational efficiency is impossible without qualified personnel. The Company is rightly proud of its employees. Metalloinvest employs approximately 64,000 people, including more than 43,000 at its production plants. The Company pays particular attention to creating ideal conditions for the professional development of employees in all positions, from workers to the highest management positions.

The Company also aspires to ensure favourable social conditions for its workforce by helping to solve social issues in the regions where the Company operates and enhancing its reputation as an employer. The development of human resources is the basis for increasing labour productivity and the creation of conditions for increasing efficiency.

The occupational health and safety of our employees is a priority for the Company. In 2013, the cost of the labour, industrial and fire safety programme amounted to more than USD 62 million, which is 7% higher than in 2012. We achieved a significant fall in the number of accidents, down by 15% compared with 2012.

In 2013, the Company continued to implement its policy for improving the social and working environment and reducing the work-related risks to its employees by actively implementing a number of measures to improve employee health and wellbeing. Our project was awarded a Diploma at the 12th All-Russia Occupation and Health Congress and Lebedinsky GOK and OEMK confirmed the compliance of their occupational health and safety systems with the requirements of the OHSAS standard.

We are proud that in 2013 the work of eight workers of Mikhailovsky GOK was recognised by high government awards.

...under the leadership of a strong and professional management team.

Metalloinvest continues to implement measures to improve the management of the Company. In 2013 and at the beginning of 2014, there were significant changes to the management body of the Company, which were aimed at bringing in new professionals with the qualifications and experience required for strengthening the Company’s management. The inclusion of independent and non-executive directors on the Board of Directors provided the necessary balance and a higher degree of Board independence.

Stable financial position...

Maintaining its position in the global market and increasing the Company’s value is based on financial discipline and efficient management of financial resources. In 2013, Metalloinvest maintained a stable financial position, having significantly improved its external debt repayment schedule. Despite the difficult geopolitical situation, the Company completed its debt restructuring in 2014 by signing a new USD 1,150 million syndicated loan, which was used to refinance an earlier loan.

The significant improvement in the debt portfolio structure, achieved in 2014, is an important contributor to financial stability and liquidity growth.

...supports the increase in shareholder value over the long-term.

Metalloinvest will continue the implementation of its programme of operational improvements aimed at increasing production efficiency.

The Company will focus its efforts on completing major investment projects aimed at increasing the output of high value-added products, which will provide it with additional competitive advantages in the long term.

Investment Programme

In 2013, Metalloinvest adopted an investment programme for the coming years. The programme includes key investment projects which aim to increase the Company’s operational efficiency and make a significant contribution to the achievement of long-term strategic goals.

Over the last three years, capital expenditure amounted to an average of USD 500 million annually. Provided favourable conditions in Metalloinvest’s major markets are maintained, capital expenditure in 2014 is expected to reach USD 700-750 million.
2.2 Efficient development of the iron ore base

Processing of iron ore: the modernisation of the 14th technology section of Mikhailovsky GOK’s crushing and sorting plant

Using the oxidised ferruginous quartzite in processing substantially increases crude iron ore processing efficiency.

In 2013, following the Company’s decision to conduct an experiment related to the production iron ore concentrate from oxidised quartzites, Mikhailovsky GOK started the refitting of the crushing and sorting plant.

The experiment involves concentrate production from oxidised ferruginous quartzites in industrial conditions using existing production facilities for ore grinding. Beneficiation of oxidised ferruginous quartzite is completed through magnetic flotation using beneficiation equipment which allows the application of high-intensity magnetic separation methods.

The project is facilitated by Outotec, one of the world’s leading engineering companies in the field of ore-refining technology, which developed the technological specifications. The works are carried out by the Urban Institute for Metallurgical Plants Design LLC (Gipromez) and engineering plans are developed by the Engineering Directorate of Mikhailovsky GOK.

The project will enable Metalloinvest to improve the efficiency of ore processing.

2.3 Market position consolidation in the high added-value products segment

Construction of Pellet Plant #3 at Mikhailovsky GOK

The commissioning of Pellet Plant #3 will allow Metalloinvest to increase pellet production capacity by five million tonnes. The new unit will cover all the technological stages of production: from iron ore concentrate pelletising to the railway station for pellet shipments. In 2013, construction works were carried out on buildings for roasting and pelletising, the pellet warehouse, the transfer unit, the sorting unit, the receiving and concentrate condensation centre, the railway station for pellet shipments.

Engineering decisions comply with all environmental regulations and provide adequate protection to both water and air environments.

Metalloinvest plans to complete the construction of the pellet plant by the end of 2014.

Successful implementation of the project will enable Metalloinvest to increase the share of high added-value products in its total shipments.

HBI-3 Plant construction at Lebedinsky GOK

The construction of HBI-3 Plant with an annual production capacity of 1.8 million tonnes at Lebedinsky GOK is a crucial strategic investment project.

The project involves the design, manufacturing and supply of equipment is implemented by a consortium made up of Siemens VAI (Austria) and Midrex Technologies (U.S.), with whom Metalloinvest signed a contract in August 2012. Metalloinvest’s subsidiary Gipromez, a Russian engineering design company, is also participating in the project.

After commissioning, HBI-3 Plant will be the largest HBI production facility in the world.

The implementation of the project will allow Metalloinvest to meet growing demand for steel plants for high-quality raw materials and maintain global leadership in the production of merchant HBI.
2.4 Introduction of new technologies to maintain low cost of production

In 2013, the Company completed the installation of equipment and MODULAR software as part of the first phase of the introduction of an automated control system for mining and transport units at Lebedinsky GOK and Mikhailovsky GOK. The automated control system allows the collection of information in real-time, the possibility to manage the equipment, and control the mining process and transportation of iron ore.

As a result of the first phase of the project, productivity of excavator and truck units increased by 10%.

2.5 Maximising operational efficiency of the Steel Segment

In 2013, Metalloinvest commenced the main stage of the modernisation program for its mining and transport units. The plants received high-performance vehicles: six Caterpillar dump trucks with lift capacity of 180 tonnes and two BelAZ trucks with capacity of 220 and 160 tonnes.

In 2014, Metalloinvest receives five Caterpillar dump trucks with a load capacity of 180 tons and one BelAZ with a load capacity of 220 tonnes.

In addition, in 2013 and early 2014, as part of the programme to update the mining and transport fleet, the plants received six BelAZ dump trucks with capacity of 130 tonnes, five excavators with a bucket capacity of 10 to 12 m³, five heavy class crawler tractors, a rig, dump cars and six traction units.

In the near future, the delivery of four more traction units, two excavators with a bucket capacity of 10 and 15 m³, and three drilling rigs is planned. Upgrades to the auxiliary equipment fleet are also expected.

Project implementation involves improving the efficiency of excavator-truck units and the modernisation of technological equipment.

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Project implementation involves improving the efficiency of excavator-truck units and the modernisation of technological equipment.
**Construction of Coke Oven Battery #6 at Ural Steel**

In 2014, the Company will complete the construction of Coke Oven Battery #6 and the reconstruction of its coke production unit at Ural Steel. This project will increase coke production capacity, which will reduce the dependence on external suppliers and decrease production costs, as well as improve the consistency of coke quality. In addition to the construction of Coke Oven Battery #6, the project involves the construction of a dust-free coke emission unit, which will capture and purify gas emissions from residual dust. The project also provides for the installation of wastewater treatment and the construction of additional power facilities for coke production. This will reduce the unit’s environmental footprint.

The implementation of the project will reduce the dependence on external suppliers, decrease production costs and reduce the unit’s environmental footprint.

**Hydromechanical descaling system at Plate Mill at Ural Steel**

Maintaining the Company’s position in the steel bridge market, due to the specific requirements for this type of steel products, requires continuous improvements in product quality. In 2013, the technical modernisation of the hydromechanical descaling system at Plate Mill was completed, which ensured 100% descaling from the surface of steel produced at the mill, and thus removed the risk of a disruption in the production process at the mill for additional cleaning of finished products to eliminate rolled-in scale defects. The project ensures compliance with the requirements of Russian standard STO 13657842-1-2009 for rolled low-alloy structural steel products for bridge construction.

Implementation of the project will strengthen Metalloinvest’s position in the steel bridge market.

**Modernisation of production assets at Ural Steel**

At Ural Steel Sintering Machine #4 has been upgraded, which increased the productivity of the Sinter Plant and improved the performance of the blast furnace shop by reducing its consumption of raw materials.

In the first quarter of 2013, open-hearth plants were decommissioned in order to increase cost efficiency and environmental safety.

The implemented measures improved operational efficiency at Ural Steel and reduced its environmental footprint.

**Installation of wastewater treatment at OEMK**

The project involves the construction of a wastewater treatment and sludge dewatering system, with the goal of reducing the negative impact on the environment, enabling the reuse of treated wastewater in the plant’s water systems.

In 2013, the implementation of the first phase of the project to construct a wastewater treatment plant was completed. The project is scheduled to be completed in 2015.

The project will reduce the negative impact on the environment.
3.1 Market overview

Macroeconomic Factors Affecting Metalloinvest’s Results.

Mining and steelmaking are capital intensive businesses. The accuracy of today decisions can have a significant impact on the Company’s results in the future. Therefore, a long-term macroeconomic and strategic analysis of domestic and global markets is a key priority for the Company’s management. The Company's management continuously analyses strategic opportunities and assesses their feasibility, taking into account long-term trends in the global and Russian economies.

Global Merchant HBI/DRI Market

Factors Affecting Global Demand for HBI/DRI:

- Stricter requirements for cleaner production. Stricter requirements for hazardous residue emissions into the atmosphere led to a decline in crude steel production involving the use of coke. Crude steel production in electric furnaces does not require coke.
- Increased share of steel production in electric furnaces. According to the World Steel Association (WSA), the share of steel production in electric arc furnaces in the United States increased from 27% in 1980 to 60% in 2013, in Europe — from 28% in 1980 to 42% in 2013.
- Lower quality of scrap. In a cycle where scrap is produced from steel produced in electric-arc furnaces using scrap, hazardous admixtures accumulate in the end product. To control the chemical composition of steel, manufacturers add HBI/DRI to scrap metal in steelmaking units, thereby reducing the percentage of hazardous admixtures.
- Increased quality requirements for steel products. To ensure quality, reliability and longer service life of steel (bridge structures, vehicles, pipelines), manufacturers of steel structures are demanding higher quality steel products, which in turn leads to a need to use high-quality raw materials in steelmaking processes.

Factors Supporting Demand for HBI/DRI in CIS Countries:

- Reduced volume of recyclable scrap. In CIS countries, due to a decline in open-hearth production and the transition to electric furnaces, as well as the introduction of continuous casting technology, the amount of recyclable scrap has decreased. The growing deficit in scrap underpins high demand for HBI/DRI.
- Increased steel production in electric furnaces. The share of steel production in electric furnaces in CIS countries increased from 22% in 2000 to 27% in 2013. Thus, in 2006-2013, in Russia, 15 mini mills were constructed for steel production in electric furnaces and for production of rolling steel with a total capacity of 16 million tons of steel per year.

Main advantages of HBI/DRI production compared to pig iron production:

- Small-scale production facilities. Production of HBI/DRI is more compact and does not require sinter plants, coke production or blast furnaces.
- Environmentally friendly. Use of natural gas as a reducing agent in the production of HBI/DRI instead of coke is more environmentally friendly. Carbon dioxide emissions are 50-60% lower compared to pig iron smelting in blast furnaces.
- Energy efficiency. Direct reduction of iron is carried out in the solid phase at 900°C, which is significantly lower than the melting temperature of pig iron of 1,250°C. Energy savings in HBI/DRI production compared with pig iron smelting are approximately 35%.

Global Economy and Iron Ore Prices

Global market conditions in 2013 presented challenges for Metalloinvest. Demand for the Company’s core products (pellets and HBI) is dictated primarily by demand for end products from steelmaking plants, the Company’s major customers. As steel remains a basic construction material, the demand outlook for steel products is traditionally associated with global GDP growth forecasts and the outlook of the Chinese economy.

GDP growth in 2013 and forecasts from the International Monetary Fund for the next two years indicate that the economies of developing countries will grow faster than the global economy.

Metalloinvest, when formulating its sales policies, takes these global economic trends into consideration.
According to the WSA, global steel production increased by 3.5% (compared to 2012), reaching 1,600 million tonnes in 2013, while China produced 779 million tonnes of steel, increasing its output by 7.5%. This growth rate in steel production contributed to higher demand for iron ore, the supply of which increased by 11% to 1,300 million tonnes. Platts average price index for iron ore (62% Fe, CFR China) increased by 4% to 135 USD/t in 2013 compared with the average index price of 130 USD/t in 2012. China’s economic growth is expected to gradually decline, but in the next two years it will not be less than 7% per year.

In 2013, demand for iron ore pellets remained relatively high, the premium in the Chinese market (the largest importer of iron ore) doubled during this period from 15 USD/t at the beginning of the year to 30 USD/t at the end of the year.

The long-term outlook for the steel products market, for which Metalloinvest supplies raw materials, is affected by the following trends:

- growth rate of urbanisation in developing countries is much higher than in developed countries, and the process of urbanisation boosts steel consumption;
- increased use of energy efficient and environmentally friendly technologies in urban construction promotes the use of steel as a key construction material.
Business model and operational results in 2013
Metalloinvest is a global mining company with a complete production cycle from iron ore mining to the output of high-quality steel.

Metalloinvest processes iron ore into high added-value products, including pellets and HBI/DRI, and uses them internally for steel production and ships them to external customers.

**Production Processes at Metalloinvest Enterprises**

The Company’s Mining Segment comprises Lebedinsky GOK and Mikhailovsky GOK. The Company’s Steel Segment comprises OEMK and Ural Steel. The Steel Segment also includes Ural Scrap Company, which collects and recycles scrap metal.

The Company’s production assets include auxiliary businesses (for more information visit the Company’s website: www.metalloinvest.com).

Lebedinsky GOK, Mikhailovsky GOK and OEMK are located in the European part of Russia. The three plants have access to key markets in the CIS, Europe, the Middle East and North Africa through a developed transport infrastructure. Ural Steel is located in the Urals close to the main regional producers of pipe products and transports its products by rail.
Lebedinsky GOK and Mikhailovsky GOK develop deposits located in one of the largest iron-producing basins in the world — Kursk Magnetic Anomaly. The Company’s deposits largely consists of magnetite ores with an average iron grade of 34-39%.

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**Lebedinsky GOK**

Lebedinsky GOK is the largest iron ore production and beneficiation enterprise in Russia and the CIS. It is also the largest producer of high-quality iron ore products for steel production. Lebedinsky GOK is the only producer of merchant HBI in Russia and the CIS. The enterprise develops an iron ore deposit with proven reserves of four billion tonnes.

The diagram in the right shows technological processes of Lebedinsky GOK in detail.

The main types of products at Lebedinsky GOK are:
- iron ore concentrate;
- non-fluxed pellets;
- fluxed pellets;
- HBI.

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**Mikhailovsky GOK**

Mikhailovsky GOK is one of the largest iron ore production and beneficiation enterprises in Russia and the CIS. Mikhailovsky GOK develops an iron ore deposit with proven reserves of 10.6 billion tonnes.

The diagram in the right shows technological processes of Mikhailovsky GOK, in detail.

The main types of products at Mikhailovsky GOK are:
- sintering ore;
- iron ore concentrate;
- non-fluxed pellets.
4.4 Steel Segment

Metalloinvest’s Steel Segment comprises OEMK and Ural Steel, which are the leading producers of niche steel products in Russia. It also includes Ural Scrap Company, which collects and recycles scrap metals.

**OEMK**

OEMK is the only full-cycle steelmaking enterprise in Russia which uses direct reduction technology and melting in electric arc furnaces, enabling it to produce steel almost completely free from contamination and residual elements.

The diagram in the right shows technological processes of OEMK in detail.

The main types of products at OEMK are:
- DRI;
- steel products:
  - square billets;
  - pipe billets;
  - long products.

**Ural Steel**

Ural Steel is a full-cycle enterprise, which includes agglomeration and blast-furnace processes, steelmaking and rolling.

The diagram in the right shows technological processes of Ural Steel in detail.

The main types of products at Ural Steel are:
- pig iron;
- cast circular billets;
- flat products:
  - bridge steel;
  - strips;
  - ship steel;
  - heavy plate.
Metalloinvest continues to implement its strategy of improving corporate governance practices, including in respect to its management system, production processes and product certification. This enables Metalloinvest to promote its products in international markets, attest to the quality of its products and implement corporate responsibility practices with regard to its employees (in terms of ensuring safe working conditions) and shareholders (in terms of reducing the risk of losses due to emergency situations).

In line with the Company’s strategy, in 2010 all its enterprises registered their key products in accordance with the requirements of EU Regulation # 1907/2006 (REACH). This registration permits Metalloinvest to sell its products to the EU markets.

In addition to the certification received in previous years by OEMK, Lebedinsky GOK and Mikhailovsky GOK, Ural Steel was certified in 2013. Ural Steel efforts to receive certification included:

- a recertification audit of flat steel products and normal-strength and high-strength steel for shipbuilding for compliance with the requirements of the American Bureau of Shipping;
- first-time certification of BOF products (argon liquid, premium quality);
- first inspection of production facilities for compliance with the requirements of EU Directive 97/23/ЕЕС concerning pressure units and with the requirements of Technical Regulation AD 2000W0;
- inspection of production facilities to expand the scope of processes covered by Producer Acknowledgement Certificate # 12.50493.130 of the Russian Maritime Register of Shipping;
- inspection of production processes to expand the scope of process cover by Approval Certificate # АММ-6012 of Det Norske Veritas AS (DNV GL, formerly DNV);
- certification audit of occupational safety procedures to confirm its readiness to be certified in compliance with OHSAS requirements. The certification is scheduled to be implemented in 2014.

In 2013, Metalloinvest maintained its leading positions in the mining and steel sectors:

- The largest producer of iron ore products in Russia and the CIS.
- The second-largest iron ore resource base (54.6 billion tonnes according to JORC classification).
- Leading global producer of merchant HBI.
- The third-largest producer of pellets in the world.
- The fifth-largest steel producer in Russia.

### Production

**Iron Ore**

In 2013, iron ore production (concentrate and sintering ore) totalled 38.4 million tonnes, representing a 3.5% decrease compared with 2012. Approximately 65% of iron ore was processed into high added-value products: pellets and HBI/DRI.

**Pellets**

In 2013, pellet production totalled 22.6 million tonnes, the same as in 2012. Metalloinvest's pellets contain up to 66.5% of iron, which is in line with the highest global quality standards for steel products.

Metalloinvest plans to increase pellet production capacity.

In 2013, the Company started the final stage of construction of Pellet Plant #3 at Mikhailovsky GOK. The plant will have a capacity of 5 million tonnes per year. After the completion of construction, Metalloinvest’s total pellet production capacity will reach 27.6 million tonnes per year.

**HBI/DRI**

Increased HBI/DRI production allows Metalloinvest to sustain a leading position globally.

Growing demand, the product’s high profitability and relatively weak competition have allowed Metalloinvest to increase output of HBI. In 2013, the Company produced 5.3 million tonnes of HBI/DRI, 31% more than in 2012. The Company remains the only HBI/DRI producer in Russia and the CIS. DRI is used for crude steel production at OEMK.
Metalloinvest plans to increase HBI/DRI production capacity.

In 2013, Metalloinvest continued to modernise HBI-2 Plant to increase capacity by 58 thousand tonnes per year. The Company also started the construction of HBI-3 Plant with capacity of 1.8 million tonnes per year. After completion, the plant will become the largest HBI production facility in the world, and Metalloinvest’s total HBI/DRI production capacity will increase to 7.2 million tonnes per year.

Pig iron

In 2013, pig iron output increased by 4.9% to 2.2 million tonnes. This was due to production capacity expansion at the Ural Steel blast furnace shop and the modernisation of casting facilities.

Steel

In 2013, the Company produced 4.7 million tonnes of steel, which is 16.7% less than in 2012. The main reason for the decrease in steel production was the gradual decommissioning and subsequent shut down of the open-hearth shop at Ural Steel in 2013.

Production capacity upgrades

At present, OEMK is implementing measures to increase its production efficiency. This increase will compensate for the loss of production capacity at Ural Steel in 2013.

Shipments

In 2013, the share of shipments of key high added-value products: pellets and HBI/DRI was increased.

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<td>Iron ore*</td>
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</tr>
<tr>
<td>Pellets</td>
<td>17,737</td>
<td>14,063</td>
<td>-2.3%</td>
</tr>
<tr>
<td>HBI/DRI</td>
<td>2,438</td>
<td>2,284</td>
<td>6.7%</td>
</tr>
<tr>
<td>Other products**</td>
<td>39</td>
<td>339</td>
<td>-88.5%</td>
</tr>
<tr>
<td>Steel Segment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pig iron</td>
<td>1,414</td>
<td>811</td>
<td>74.3%</td>
</tr>
<tr>
<td>Steel products</td>
<td>4,307</td>
<td>5,103</td>
<td>-15.6%</td>
</tr>
</tbody>
</table>

* Iron ore comprises concentrate and sintering ore
** HBI fines and pellet fines at Lebedinsky GOK

Iron ore

In 2013, iron ore shipments to external customers decreased by 11.3% to 11.1 million tonnes. This fall in iron ore shipments was due to an increase in pellet and HBI/DRI production.

Pellets

In 2013 pellet shipments to final customers fell by 2.3% to 13.7 million tonnes. The decrease in shipments was a result of the Company’s policy of revenue maximisation. This policy provides for a flexible approach to the share of pellet shipments to external customers compared to the share of pellets used for further processing by the Company’s enterprises depending on market conditions.

HBI/DRI

Almost all HBI is shipped to external customers. The high density of HBI allows the Company to significantly reduce transportation costs. In 2013 Metalloinvest shipped 2.4 million tonnes of HBI/DRI, HBI represented a 95% share of this volume. In 2013, HBI shipments to final customers accounted for 91% of total production. Metalloinvest has maintained its global leadership position in the merchant HBI market.

Pig iron

In 2013, pig iron shipments increased by 74.4% to 1.4 million tonnes.

Steel

In 2013, steel product shipments to end customers decreased by 15.6% to 4.3 million tonnes as a result of a reduction in steel output.

Geography of shipments

Shipments to external customers

Metalloinvest exports iron ore products and HBI to Europe and the CIS by rail and through sea ports on the Baltic Sea and Black Sea.

The shipment of iron ore products to China is made by heavy-load vessels through Novorossiysk port in the south of the Black Sea. Nearly half of the shipments to China are delivered on a CIF/CFR basis, the rest is shipped on a DAF basis by Zabaikalsk railroad.

Diversification of shipments

The Company aims to widen its geography of shipments, focussing on emerging markets with high growth potential. Metalloinvest ships iron ore products throughout Russia and the CIS, as well as to China, Southeast Asia, Europe, the Middle East and North Africa.

Russia is one of Metalloinvest’s markets with the best prospects. Signing long-term contracts with leading Russian steelmaking plants contributed to the growth of sales of iron ore in Russia and CIS countries from 52% in 2012 to 60% in 2013.
Russia is one of Metalloinvest’s strongest markets. The signing of long-term contracts with leading Russian steelmaking plants contributed to Russia and the CIS representing 60% of iron ore shipments, up from 52% in 2012.

The Company’s share of sales to Southeast-Asian countries (excluding China) increased from 6% in 2012 to 9% in 2013. Europe’s share decreased from 22% to 20%. China’s share fell from 18% to 8% due to an increase in sales to Russian customers under long-term contracts. China, however, remains an important export market for the Company and shipments to the country in the first quarter of 2014 grew due to increases in demand and prices (see operational results of the first quarter of 2014).

In 2013 the Company shipped 16.2 million tonnes of iron ore products and HBI to customers in Russia (14.8 and 9.1 million tonnes in 2012 and 2011, respectively). This increase in shipments was due to growing demand from leading Russian steelmaking companies: NLMK, MMK and Severstal. Metalloinvest also ships iron ore products to such companies, as KOKS Group, Evraz and Kosogorsky MZ. Shipments to the largest steelmaking plants were made under the long-term contracts, signed with NLMK and MMK in 2011. In March 2013 Metalloinvest signed a three-year contract with Severstal to ship up to three million of concentrate.

Metalloinvest sells iron ore products and steel to steelmaking plants in Russia directly. The prices for the majority of contracts are based on the Platts iron ore price index (62% Fe, CFR China).

In 2013 the Company exported 11.1 million tonnes of iron ore products and HBI (14.4 million tonnes, 20.0 million tonnes in 2012 and in 2011 respectively). The Company’s main customers outside Russia are steelmaking plants in Asia (China, South Korea, Japan, India, Thailand and Indonesia) and Europe (Slovakia, Czech Republic, United Kingdom, Poland, Hungary, the Netherlands and Romania).

In 2013, the largest customers for Mining Segment products outside Russia were ArcelorMittal and US Steel Kosice. Other large customers are Kobe Steel, Sulftenhe, POSCO, Xilin Group and Erdemir.

Metalloinvest exports iron ore products through its subsidiary Metalloinvest Trading AG.

Shipments of merchant pig iron and steel products

In 2013 the Company shipped 5.7 million tonnes of merchant pig iron and steel products (5.9 million tonnes in 2012). The main customers for steel products are the automobile, engineering, pipe and tube, hardware and bearing industries.

In 2013 OEMK won the “Supplier of 2012” award from Schaeffler Group, a leading global producer of frictionless bearings.

Ural Steel participated in the “Leader in Quality in Orenburg Region — 2013” contest. Ural Steel’s blast furnace products won in the “Consistent Quality and High Competitiveness” category.

Metalloinvest is also the largest steel manufacturer of materials used in bridge construction in Russia. Metalloinvest’s steel was used for the construction of a 895-metre bridge across the river Oka in Nizhny Novgorod and for the construction of a 3,100-meter bridge to Russky Island in Vladivostok. In 2013 Metalloinvest shipped steel products for the construction of Olympic facilities in Sochi (including Fisht). Participation in such important projects allows Metalloinvest to successfully compete in tenders for high-quality bridge steel deliveries.
5.1 Corporate Governance

The Company believes that consistent application of international corporate governance best practices ensures sustainable development and increases its value.

Objectivity and independence of the Board of Directors are the basic principles that the Company follows to improve the efficiency of the business.

In 2013 and in the first half of 2014, the structure and the composition of the Board of Directors changed significantly. The number of members of the Board of Directors has been reduced from 12 to 9 people. Independent and non-executive directors have become members of the Board of Directors. They will monitor the activities of the Company’s senior management and prevent conflicts of interest between the management and shareholders. The presence of non-executive directors on the Board is of crucial importance for such matters as determining the amount of remuneration to be paid to the senior management, acquisition or sale of assets, and conducting internal audits.

As a result of the recent changes, Metalloinvest’s system of corporate governance is in line with international best practices: the Board is separate from the management and constitutes an autonomous, independent body, which plays a central role in the corporate governance system. The Board of Directors of Metalloinvest has been active, both in the development of a long-term strategy and in making decisions on significant operational issues and assessment of the senior management’s performance.

The Board of Directors consists of nine members: the Chairman, three independent directors, three non-executive directors and two executive directors. The members of the Board of Directors participate in three Committees: the Audit Committee, the Finance, Budgeting and Strategy Committee and the Compensation and Benefits Committee (established in April 2014). In appointing members to the Committees, the Board of Directors sought to reach a balance of competencies, qualifications and experience.

In 2013 and the beginning of 2014, the Board of Directors made a number of key decisions:

**2013**
- Approved the annual budget (including a plan of financial and business operations).
- Approved an annual capex programme.
- Formed the Committees.

**2014**
- Formed the Management Board.
- Approved the list of initiatives aimed at the development of an employee incentives system, identification of key performance indicators, setting of operational and financial targets, and preparation of schedules for major events.
Members of the Board of Directors
Members of the Board of Directors

Ivan Streshinsky,
Chairman of the Board of Directors

Mr. Streshinsky graduated from the Department of Aeromechanics and Flight Engineering at the Moscow Institute of Physics and Technology (MIPT). He is CEO of USM Advisors and Garsdale Services Investment, as well as a member of the Board of Directors of USM Holdings Limited, Telecommunication, LTH Russia, MegaFon, Mail.ru, New Media Technologies Capital Partners and Kommersant Publishing House. Member of the Management Company Metalloinvest Board of Directors since October 2013.

Galina Aglyamova,
Independent Non-Executive Director

Mrs. Aglyamova graduated from the Moscow Institute of Steel and Alloys (MISIS) and holds a PhD in Economics. Until the end of 2012, she was a Vice President of NLMK. Member of the Management Company Metalloinvest Board of Directors since October 2013.

Valery Kazikayev,
Independent Non-Executive Director

Mr. Kazikayev graduated from the Moscow Mining Institute in 1976. He holds a PhD in Economics. Since March 2013, Mr. Kazikayev has served as an Advisor to the CEO of Rosneft Overseas S.A. Member of the Management Company Metalloinvest Board of Directors since October 2013.

Vadim Levin,
Independent Non-Executive Director

Mr. Levin graduated from Leningrad Institute of Finance and Economics and holds a PhD in Economics. He is the first Vice President of Eurofinans Mosnarbank. Member of the Management Company Metalloinvest Board of Directors since October 2011.

Irina Lupicheva,
Non-Executive Director

Mrs. Lupicheva graduated from the Department of International Economic Relations at the Moscow State Institute of International Relations (MGIMO) and completed postgraduate studies at the Moscow Finance Academy. Since May 2012, she has served as Managing Director and Head of Risk and Control Directorate at USM Advisors. Member of the Management Company Metalloinvest Board of Directors since February 2013.

Sergey Soldatenkov,
Non-Executive Director

Mr. Soldatenkov graduated from the Leningrad Institute of Aviation Engineering and completed an MBA programme at Moscow Technical University of Communications and Informatics. Since 2012, he has served as Chairman of the Board of Directors at MegaFon. Member of the Management Company Metalloinvest Board of Directors since April 2014.

Natalia Chumachenko,
Non-Executive Director

Mrs. Chumachenko graduated from Voronezh State Engineering and Construction Academy and Voronezh State University. She holds a Master Trainer diploma from the International Training and Coaching Centre. Since July 2013, Mrs. Chumachenko has served as Deputy General Director at USM Advisors. Member of the Management Company Metalloinvest Board of Directors since October 2013.

Andrey Varichev,
Executive Director,
CEO of METALLOINVEST Management Company

Mr. Varichev graduated from the Aviation and Mechanical Department at the K.E. Tsiolkovsky Moscow Institute of Aviation Technology (MATI) as an aircraft mechanical engineer. Since June 2009, he has served as CEO of METALLOINVEST Holding Company. Since October 2013, Mr. Varichev has served as CEO of Metalloinvest Management Company. Member of the Management Company Metalloinvest Board of Directors since April 2007.

Dmitry Tarasov,
Executive Director

Mr. Tarasov graduated from the Department of Metallurgy of Non-Ferrous and Rare Metals and Alloys at the Moscow Institute of Steel and Alloys with a Metallurgical Engineering degree and holds a PhD in Engineering Sciences. Since 2005, he has served as an Executive Director of ZAO Metalloinvest. Since 2007, Mr. Tarasov has been the Chief Executive Officer of Ukrainian Metallurgical Ore Company. Member of the Management Company Metalloinvest Board of Directors since April 2014.
Committees of the Board of Directors

In 2013, two Board committees were formed: the Audit Committee and the Finance, Budgeting and Strategy Committee. In April 2014, a third Committee was established: the Compensation and Benefits Committee.

The Committees are responsible for the preliminary review of the most important matters falling within the remit of the Board of Directors, as well as for preparing recommendations for making decisions.

The Audit Committee

Independent Director Galina Aglyamova chairs the Committee. In 2013 the Committee also included Vadim Levin (Independent Director), Irina Lupicheva (Non-Executive Director). Sergey Soldatenkov (Non-Executive Director) was nominated to the Audit Committee in April 2014.

The primary functions of the Audit Committee are:
- assessment of the effectiveness of internal audit procedures and preparation of proposals for their improvement;
- direct management of the Internal Audit Service;
- assessment of the Company’s financial statements;
- preparation of recommendations to the Board of Directors on the prevention, detection and limitation of financial and operational risks for the Company’s business;
- evaluation of candidates for external auditors, as well as preparation of recommendations on the remuneration for the external auditor;
- analysis and discussion with the auditor of significant issues arising during the conduct of the independent external audit.

The Finance, Budgeting and Strategy Committee

Non-Executive Director Natalia Chumachenko chairs the Committee. Valery Kazi-kayev (Independent Director), Andrey Varichev (Executive Director) and Dmitry Tarasov (Executive Director) (since April 2014) are the Committee’s members.

The primary functions of the Finance, Budgeting and Strategy Committee are:
- preparation of proposals on priority areas of the Company’s activities;
- preparation of proposals on investment projects;
- preparation of proposals on the conclusion of agreements for the sale and purchase of shares of other companies (including derivative securities);
- preparation of proposals on the conclusion of sale and purchase agreements and supply agreements for steel and iron ore products and other goods, if the amount of the transaction or several related transactions exceeds RUB 1.5 billion, except for intragroup transactions;
- preparation of proposals on the conclusion of credit and loan agreements, security agreements in relation to credit and loan agreements, bank deposit agreements, agreements on the issue of promissory notes and other instruments to raise funds if the amount of the transaction or several related transactions exceeds RUB 1 billion, except for intragroup transactions;
- preparation of proposals on the Company’s dividend policy.

The Compensation and Benefits Committee

The Committee was formed in April 2014 to further:
- the creation of conditions to attract and retain qualified personnel;
- the improvement of the efficiency of the remuneration system, which links the remuneration payable to employees with their contribution to the Company’s activities.

Non-Executive Director Sergey Soldatenkov is the Committee Chairman. The Committee is also composed of Galina Aglyamova (Independent Director) and Natalia Chumachenko (Non-Executive Director).

The primary functions of the Committee are:
- preparation proposals on the Company’s policy on the remuneration of the members of the Board of Directors, the CEO, and the Management Board members, for approval by the Board of Directors;
- preparation of proposals on training and motivation of the personnel;
- development of human resources and social policies;
- development of the Company’s resource planning principles.
Andrey Varichev,  
CEO, member of the Management Board

Mr. Varichev graduated from the Aviation and Mechanical Department at the K.E. Tsiolkovsky Moscow Institute of Aviation Technology (MATI) as an aircraft mechanical engineer. He has worked as a top manager of the Company and its production enterprises since 2001. Mr. Varichev has served as CEO since October 2013.

Andrey Ugarov,  
First Deputy CEO — Chief Operating Officer, member of the Management Board

Mr. Ugarov graduated from the Lipetsk Polytechnic Institute. He has worked at the Company since 1999. From 2004 to 2011, he served as CEO at OEMK. He has worked as a top manager of the Company and its production enterprises since 2004. Mr. Ugarov has held his current position since December 2013.

Nazim Efendiyev,  
First Deputy CEO — Chief Commercial Officer, member of the Management Board

Mr. Efendiyev graduated from the Military Institute of Foreign Languages, the Academy of National Economy under the MBA programme, as well as completing an International Management programme at Kingston University. He has worked as a top manager of the Company and its production enterprises since 2003. He has held his current position since March 2012.

Pavel Mitrofanov,  
Deputy CEO — Chief Financial Officer, member of the Management Board

Mr. Mitrofanov studied economics at Moscow State University, completed a master’s programme with a degree in Financial Accounting, Analysis and Audit, and earned an MBA from the Imperial College Business School in London. He has worked at Metalloinvest since 2004. Mr. Mitrofanov has served as a top manager since 2008. He has held his current position since April 2010.

Yuriy Nadeyev,  
Deputy CEO — Chief Security Officer, member of the Management Board

Mr. Nadeyev graduated from the Moscow Institute of Law and holds a PhD in Legal Sciences. He has worked as a top manager of the Company since 2009. Mr. Nadeyev has held his current position since March 2010.

Sergey Shuvalov,  
Deputy CEO — Legal and Corporate Affairs Director, member of the Management Board

Mr. Shuvalov graduated from Novosibirsk Military and Political College and the International Legal faculty of the Moscow State Institute of International Relations under the Ministry of Foreign Affairs of the Russian Federation. He has worked as a top manager of the Company since 2006. He has held his current position since April 2008.

Marina Novikova,  
Deputy CEO for Organisational Development and Human Resources Management, member of the Management Board

Mrs. Novikova graduated from the Maurice Thorez Moscow State Pedagogical Institute of Foreign Languages. In 2005, she received a Business Administration certificate from INSEAD business school. Mrs. Novikova has worked as a top manager of the Company since 2013. She has held her current position since November 2013.

Sergey Shuvalov graduated from Novosibirsk Military and Political College and the International Legal faculty of the Moscow State Institute of International Relations under the Ministry of Foreign Affairs of the Russian Federation. He has worked as a top manager of the Company since 2006. He has held his current position since April 2008.

Andrey Ugarov graduated from the Lipetsk Polytechnic Institute. He has worked at the Company since 1999. From 2004 to 2011, he served as CEO at OEMK. He has worked as a top manager of the Company and its production enterprises since 2004. Mr. Ugarov has held his current position since December 2013.

Nazim Efendiyev graduated from the Military Institute of Foreign Languages, the Academy of National Economy under the MBA programme, as well as completing an International Management programme at Kingston University. He has worked as a top manager of the Company and its production enterprises since 2003. He has held his current position since March 2012.

Pavel Mitrofanov studied economics at Moscow State University, completed a master’s programme with a degree in Financial Accounting, Analysis and Audit, and earned an MBA from the Imperial College Business School in London. He has worked at Metalloinvest since 2004. Mr. Mitrofanov has served as a top manager since 2008. He has held his current position since April 2010.

Yuriy Nadeyev graduated from the Moscow Institute of Law and holds a PhD in Legal Sciences. He has worked as a top manager of the Company since 2009. Mr. Nadeyev has held his current position since March 2010.
Mr. Gavrilov graduated from the Department of Aeromechanics and Flight Engineering at the Moscow Institute of Physics and Technology. In 1999, he obtained a Master’s degree in Finance from the Institute of Business and Economics of the Academy of National Economy. In 1999, he received an MBA in Business Administration Finance Option from the California University Business School. Mr. Gavrilov has held his current position since May 2014.

Mr. Babkin graduated from the Moscow Institute of Steel and Alloys with a degree in Ferrous Metallurgy and holds a PhD in Science. He graduated from the Finance Academy under Russian Federation Government with a degree in financial management. Mr. Babkin has worked in the Company since 2005. He has served as a top manager since 2009. He has held his current position since April 2010.

Mrs. Mazanova graduated from the Department of Technical Cybernetics and Automation at the Moscow Institute of Chemical Engineering and obtained an MBA degree in Political and Business Communications from the Institute of Communication Management (High School of Economics). She has worked as a top manager of the Company since 2005. Mrs. Mazanova has held her current position since September 2010.

Mr. Mikhailov graduated from the G.V. Plekhanov Leningrad Mining Institute. He has worked as a top manager of the Company and its manufacturing plants since 2006. Mr. Mikhailov has held his current position since October 2011.

Mr. Kretov graduated from the Peoples’ Friendship University of Russia. He has worked as a top manager of the Company and its manufacturing plants since 1998. Mr. Kretov has held his current position since July 2006.

Mr. Shlyakhov graduated from Lipetsk Polytechnic Institute. He has worked as a top manager of the Company and its production enterprises since 2001. Mr. Shlyakhov has held his current position since April 2011.

Mr. Bakayev graduated from the Military Institute of the Ministry of Defence of the Russian Federation with a degree in International Journalism, from the Moscow State University of Commerce with a degree in Commercial Law. He obtained an MBA degree in Strategic Management from the Academy of National Economy under the Government of the Russian Federation. He has worked as a top manager of the Company since 2007. Mr. Bakayev has held his current position since February 2014.

Mr. Maslov graduated from Cherepovets State University with a Metallurgy of Ferrous Metals degree. He has worked as a top manager of the Company and its production enterprises since 2007. Mr. Maslov has held his current position since April 2011.
Corporate governance and risk management
6.1 Internal Control and Audit

The Company’s system of internal control is intended to identify and assess risks, prepare recommendations to reduce their negative impact on the Company’s operations; and to introduce and improve internal control procedures. The heads of the Company’s departments and its subsidiaries are responsible for the implementation of internal control measures. An independent assessment of the efficiency of internal control procedures, and the development of recommendations on the improvement of the internal control system are key activities in this area.

The Board of Directors pays particular attention to the Company’s risk management system to ensure that the system is consistent with the global best practices and functions effectively.

Metalloinvest’s Board of Directors considers internal control and audit functions as an essential mechanism for the Company’s sustainable development. The Board of Directors relies on the experience of Galina Aglyamova, Chairwoman of the Audit Committee, and expertise of Vladimir Manuilov, Director of the Internal Audit Department of Metalloinvest Management Company, a holder of a CIA certificate (Certified Internal Auditor), to assist in the development of these functions.

The internal audit system covers all management levels and consists of the Audit Committee of the Board of Directors of Metalloinvest Management Company, the Internal Audit Department of Metalloinvest Management Company and the internal audit services of the managed companies.

The structure is described in the Regulations on the Internal Audit, and ensures independence and objectivity (an Independent Director should be appointed as the head of the Audit Committee under the Board of Directors). The internal audit services of the managed companies report to the Director of the Internal Audit Department, who, in turn, is accountable to the Audit Committee.
Metalloinvest's activities are associated with various risks. Metalloinvest has developed a multi-level risk management system to identify, classify and assess their potential implications and to manage them in an efficient manner. The system provides for risk management both at the level of the Board of Directors and at the level of the department heads of the Company’s enterprises.

### Market and operational risks

**The mining industry is strongly affected by global economic cycles and requires significant investment**

Metalloinvest is a supplier of products primarily to the steel industry, and demand for its products depends on market conditions. At the same time, mining is a capital-intensive industry requiring substantial investment. Sensitivity to the industrial production growth rates and the need for significant investment are important risk factors, which may negatively affect the Company’s financial performance and growth opportunities.

We carefully study the changes in global markets and adhere to a flexible sales policy.

**The economic slowdown in China may have a negative impact on the financial performance of Metalloinvest**

China’s economic development has a significant impact on global demand for iron ore and steel.

We diversify our markets and reduce dependence on customers in China.

### Legal risks

We strengthen our internal control and audit functions in order to minimise the possibility of violating the law and seek to be transparent and adhere to business ethics best practices in business practice in order to minimise violations in commercial operations.

### Investment projects are at risk of delays and higher costs

We carefully study investment projects and monitor their implementation, closely cooperate with suppliers and contractors in order to achieve maximum cost savings.

**Higher energy prices will have a negative impact on the financial results of Metalloinvest**

Electricity and natural gas are the main energy sources that the Company purchases from external producers. An increase in energy prices will lead to growth in production costs.

We have long-term contracts in place for the supply of natural gas and electricity with Gazprom and FGC UES.
The growth of transportation tariffs will negatively affect the financial results of Metalloinvest.

The potential implications of an increase in transportation tariffs include growth in transportation expenses for finished products and, consequently, a decline in EBITDA margin. In 2013 Metalloinvest and Globaltrans signed an agreement, whereby Globaltrans will transport 100% of Metalloinvest’s freight until May 31, 2015 and the parties will revise the prices for these services on a quarterly basis.

We enter into long-term contracts with the most cost-efficient transport and logistics companies.

Production processes may be disrupted and hazardous situations may occur.

Mining and steel production are high-risk industries. Emergencies at production facilities entail downtime in production and growth of non-production costs. To prevent hazardous situations, Metalloinvest implements a set of industrial, occupational and environmental safety measures.

We have business interruption insurance, following general practice in the industry. The insurance policy, which covers the Company’s production assets, is offered by reinsurers with ‘A’ ratings and a leading insurance company with an ‘AAA’ rating.

Financial risks

Exchange rates may fluctuate.

Foreign exchange risks are associated with the Company’s export activities. Revenues from Metalloinvest’s export operations are denominated in USD. A change in exchange rates on the reporting date results in the Company recognising profit or loss associated with changes in the foreign exchange rates in its consolidated financial statements.

We minimise the impact of changes in foreign exchange rates by ensuring that the Company’s liabilities structure is similar to the currency structure of its revenues.

Credit risks

Metalloinvest regularly raises funds on the capital and debt markets. The cost of financing is determined by market conditions, a change in which may lead to a significant increase in the cost of servicing financial liabilities.

Our mid-term target net debt/EBITDA ratio is 2:1.

Changes to Corporate Governance and Information Disclosure Practices

Entering capital markets helped the Company to improve its transparency and corporate governance practices. As the Company became more transparent, Metalloinvest was rated by three leading international ratings agencies, changed the composition of the Board and improved the level of information disclosure.
Financial Results
7.1 Financial Results

Revenue

In 2013, the Company’s revenue declined 10.6% to USD 7,324 million compared to USD 8,194 million in 2012.

In 2013, Mining Segment revenue totalled 54.1% of the Company’s total revenue against 48.9% in 2012. Revenue from the Mining Segment decreased by 1.2% to USD 3,960 million.

In 2013, Steel Segment revenue totalled 43.7% of the Company’s total revenue against 45.9% in 2012. Revenue from the Steel Segment declined by 14.8% to USD 3,204 million. The decrease in revenues was mainly due to phasing out the outdated open-hearth production at Ural Steel, and changes in the shipment structure—a reduction in the sale of steel products and an increase in shipments of merchant pig iron.

In 2013, the share of shipments to Russia and the CIS in the Company’s revenue was 51.1%, which is comparable to the result of 2012 (51.7%). The share of Europe and China in the Company’s revenues amounted to 17.9% and 5.6% respectively. Asia (excluding China), and the Middle East and North Africa account for 6.8% and 12.2% of the Company’s revenues, respectively.

Cost of sales and distribution expenses

In 2013, the cost of sales amounted to USD 3,913 million, a decline of 5.6% compared to 2012. In 2013, the share of the cost of sales in the Company’s revenue totalled 53.4% (50.6% in 2012).

<table>
<thead>
<tr>
<th>Cost of sales</th>
<th>2013</th>
<th>2012</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw and other materials</td>
<td>1,723</td>
<td>1,966</td>
<td>−12.4</td>
</tr>
<tr>
<td>Energy costs</td>
<td>879</td>
<td>861</td>
<td>2.1</td>
</tr>
<tr>
<td>Labour costs</td>
<td>715</td>
<td>721</td>
<td>−0.9</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>350</td>
<td>341</td>
<td>2.9</td>
</tr>
<tr>
<td>Tax on land, property and other taxes</td>
<td>106</td>
<td>104</td>
<td>1.4</td>
</tr>
<tr>
<td>Amortisation of mineral rights</td>
<td>64</td>
<td>66</td>
<td>−2.4</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>20</td>
<td>28</td>
<td>−27.7</td>
</tr>
<tr>
<td>Other</td>
<td>55</td>
<td>60</td>
<td>−6.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,913</strong></td>
<td><strong>4,146</strong></td>
<td><strong>−5.6</strong></td>
</tr>
</tbody>
</table>

In 2013, distribution expenses declined by 15.0% year-on-year to USD 1,146 million. The reason for the decline was a reduction in transportation expenses due to an increase in shipments to the domestic market.

<table>
<thead>
<tr>
<th>Distribution expenses</th>
<th>2013</th>
<th>2012</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation expenses</td>
<td>1,069</td>
<td>1,269</td>
<td>−15.8</td>
</tr>
<tr>
<td>Labour costs</td>
<td>29</td>
<td>27</td>
<td>7.0</td>
</tr>
<tr>
<td>Packaging materials</td>
<td>12</td>
<td>13</td>
<td>−7.3</td>
</tr>
<tr>
<td>Depreciation of fixed assets</td>
<td>4</td>
<td>4</td>
<td>10.7</td>
</tr>
<tr>
<td>Customs duties</td>
<td>1</td>
<td>2</td>
<td>−50.0</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
<td>31</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,146</strong></td>
<td><strong>1,349</strong></td>
<td><strong>−15.0</strong></td>
</tr>
</tbody>
</table>
In 2013, general and administrative expenses remained virtually unchanged and totalled USD 471 million, a decrease of 0.6% year-on-year, representing a 6.4% share of the revenues compared to 5.8% in 2012.

<table>
<thead>
<tr>
<th>General and administrative expenses</th>
<th>USD mln</th>
<th>2013</th>
<th>2012</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour costs</td>
<td>267</td>
<td>277</td>
<td></td>
<td>-3.6</td>
</tr>
<tr>
<td>Lease</td>
<td>37</td>
<td>36</td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Expenses for security</td>
<td>21</td>
<td>21</td>
<td></td>
<td>0.4</td>
</tr>
<tr>
<td>Expenses for legal and consulting services</td>
<td>20</td>
<td>21</td>
<td></td>
<td>-4.3</td>
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<tr>
<td>Expenses for brand development</td>
<td>20</td>
<td>23</td>
<td></td>
<td>15.2</td>
</tr>
<tr>
<td>Depreciation</td>
<td>15</td>
<td>12</td>
<td></td>
<td>-23.3</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>10</td>
<td>9</td>
<td></td>
<td>11.1</td>
</tr>
<tr>
<td>Expenses for bank servicing</td>
<td>8</td>
<td>9</td>
<td></td>
<td>-11.1</td>
</tr>
<tr>
<td>Business travel expenses</td>
<td>7</td>
<td>7</td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Materials and fuel</td>
<td>7</td>
<td>8</td>
<td></td>
<td>-12.5</td>
</tr>
<tr>
<td>Reserve (reserve recovery) for security for receivables</td>
<td>2</td>
<td>-2</td>
<td></td>
<td>-185.1</td>
</tr>
<tr>
<td>Other</td>
<td>61</td>
<td>63</td>
<td></td>
<td>-3.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>471</td>
<td>474</td>
<td></td>
<td>-0.7</td>
</tr>
</tbody>
</table>

EBITDA

In 2013, the Company’s EBITDA decreased by 12.3% to USD 2,240 million. EBITDA margin was 30.6%, a decline of 0.6 percentage points year-on-year. The fall in EBITDA was mainly due to a decrease in EBITDA of the Steel Segment by USD 276 million year-on-year.

EBITDA of the Mining Segment decreased by 5.5% to USD 2,092 million and totalled 93.4% of the Company’s consolidated EBITDA compared to 86.7% in 2012.

Net income

In 2013, the Company’s net income decreased by 37.5% to USD 1,080 million, compared to USD 1,727 million in 2012. The reduction in the Company’s net income in 2013, excluding USD 369 million earned from the sale of Metalloinvesttrans in 2012, totalled 17.1%.

Development programme

In 2013, the CAPEX of the Company amounted to USD 478 million, compared with USD 463 million in 2012.

In 2013, Metalloinvest signed contracts for the purchase of new equipment for its mining and transportation units: high-load BelAZ dump trucks with a maximum load capacity of 160 and 220 tonnes, Caterpillar dump trucks with an average load capacity of 180 tonnes, Hitachi electrohydraulic excavators with a 23 cubic metre bucket, as well as new dump cars.

In 2013, the bulk of capital expenditure was spent on the construction of Pellet Plant #3 at MGOK.

In 2013, Metalloinvest signed an additional agreement with a consortium made up of Siemens and Midrex for the main stage of the construction of HBI-3 Plant at Lebedinsky GOK, which includes the supply of equipment, detailed engineering solutions, and construction and installation works. In addition, Metalloinvest completed the design plans and specifications, implemented the vertical levelling of the site and finalised the construction of a thickener at the beneficiation plant.

In 2013, the Company purchased new equipment as part of a programme to increase pig iron production at Ural Steel. As a result, Ural Steel has increased pig iron casting capacities by 40% to 1.9 million tonnes per year.

Liquidity

In 2013, net cash generated from operations totalled USD 1,312 million, a 29% decline compared to USD 1,848 million in 2012.

In 2013, net cash for investing activities totalled USD 907 million, compared to USD 53 million in 2012. The difference was due to the sale of non-core assets in 2012.

In 2013, net cash used for financing activities totalled USD 320 million, compared to USD 2,493 million in 2012. In 2013, cash was used for reducing the Company’s leverage. The difference in relation to 2012 was due to the acquisition of 24% of the Company’s own shares for USD 3,023 million in 2012.

Net debt

As at December 31, 2013, the Company’s net debt fell to USD 5,443 million; net debt/EBITDA was 2.43x vs. 2.35x at the end of 2012.

Dividends

When determining the dividend policy, the Company takes into account the business’ long-term development prospects and the current debt level. In June 2014, Annual General Meeting of Holding Company METALLOINVEST declared a dividend payment, to be paid from 2013 net income and undistributed profit from previous years. Dividends will total RUB 173 billion (RUB 0.285 per ordinary share). The funds will be used by shareholders to repay loans previously received from the Company.
Debt structure

As at December 31, 2013, the share of long-term debt increased to 97% against 95% at the end of 2012.

One of the goals of Metalloinvest in debt management is to diversify its sources and increase the share of public debt. As at December 31, 2013, Metalloinvest’s debt consisted of Eurobonds (28% of the debt total), RUB-denominated bonds (18%), Sberbank credit lines (28%), and syndicated loan (PXF) (19%).

In 2013, there was a substantial improvement in the debt repayment schedule of Metalloinvest as a result of the attraction of long-term finance.

In December 2013, Metalloinvest signed a new agreement with Sberbank to refinance earlier issued loans. The amount of the transaction was RUB 55 billion (c. USD 1.7 billion), and the repayment period was extended to 2019-2021.

In March 2014, Metalloinvest signed a new pre-export finance (PXF) agreement with a syndicate of international banks for a total amount of USD 1,150 million and used the funds to refinance the previous syndicated loan. The new PXF is divided into two tranches: the first tranche of USD 850 million will be repaid monthly by equal installments from April 2016 to March 2019; the second tranche of USD 300 million will be repaid as a lump sum in March 2016. Both tranches have floating interest rates linked to LIBOR. As a result, the Company has significantly improved its debt repayment schedule and increased the average maturity of its debt portfolio.

Capital Markets

Since 2011, Metalloinvest has been raising financing on the capital markets in line with its strategy to increase the share of long-term and public debt in its portfolio as well as to diversify sources of funding.

In February 2013, Metalloinvest raised RUB 10 billion issuing RUB-denominated bonds maturing in 10 years with an early redemption option in five years. The annual coupon rate was set at 8.90%. During the book-building, investors submitted 44 orders for a total of more than RUB 20 billion, or double the expected placement volume. The Company used the proceeds for the early repayment of RUB-denominated bank loans due to be repaid in 2014.

In April 2013, Metalloinvest raised USD 1 billion issuing Eurobonds maturing in seven years. The annual coupon rate was set at 5.625%. International ratings agencies Moody’s, Fitch and Standard & Poor’s assigned the issue ratings of Baa2, BB- and BB- respectively. During the book-building, investors submitted more than 260 orders for a total of USD 3.7 billion, with the order book oversubscribed by 3.7 times.

The proceeds from the Eurobond placement were spent on the partial early repayment of the remaining USD 1 billion of a USD 2.15 billion syndicated loan (PXF). USD 250 million under this facility were repaid in March 2013 out of the operating cash flow.

The Company repaid USD 750 million tranches due to be repaid in 2014 and tranches for the amount of USD 250 million due to be repaid in 2015.

Metalloinvest’s fixed income securities

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Currency</th>
<th>Nominal value</th>
<th>Coupon rate</th>
<th>Issue date</th>
<th>Early redemption option</th>
<th>Maturity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurobonds</td>
<td>USD</td>
<td>750 mln</td>
<td>6.5%</td>
<td>July 2011</td>
<td></td>
<td>July 2016</td>
</tr>
<tr>
<td>RUB-denominated bonds (Series 01)</td>
<td>RUB</td>
<td>5 bln</td>
<td>9.0%</td>
<td>March 2012</td>
<td></td>
<td>March 2015 to March 2022</td>
</tr>
<tr>
<td>RUB-denominated bonds (Series 02)</td>
<td>RUB</td>
<td>10 bln</td>
<td>9.0%</td>
<td>March 2012</td>
<td></td>
<td>March 2015 to March 2022</td>
</tr>
<tr>
<td>RUB-denominated bonds (Series 03)</td>
<td>RUB</td>
<td>10 bln</td>
<td>9.0%</td>
<td>March 2012</td>
<td></td>
<td>March 2015 to March 2022</td>
</tr>
<tr>
<td>RUB-denominated bonds (Series 04)</td>
<td>RUB</td>
<td>5 bln</td>
<td>8.9%</td>
<td>February 2013</td>
<td></td>
<td>February 2018 to February 2023</td>
</tr>
<tr>
<td>RUB-denominated bonds (Series 05)</td>
<td>RUB</td>
<td>5 bln</td>
<td>8.9%</td>
<td>February 2013</td>
<td></td>
<td>February 2018 to February 2023</td>
</tr>
<tr>
<td>Eurobonds</td>
<td>USD</td>
<td>1,000 mln</td>
<td>5.625%</td>
<td>April 2013</td>
<td></td>
<td>April 2020</td>
</tr>
</tbody>
</table>
International ratings agencies have been assigning ratings to Metalloinvest since June 2010.

Positive changes in the ratings assigned to the Company for the last three years reflect an acknowledgment by the investment community of the efforts made by Metalloinvest to enhance the efficiency of the Company’s operations.

In April 2013, all three major credit rating agencies raised or affirmed the ratings of Metalloinvest:

- Moody’s raised Metalloinvest rating to Ba2 with a Stable outlook, noting that the rating upgrade reflects the Company’s high margins, despite the difficult market situation;
- Fitch revised its outlook on the BB- rating from Stable to Positive, noting the Company’s stable liquidity position;
- Standard & Poor’s affirmed the Company’s rating at BB- with a Positive outlook, which is based on the expectation that Metalloinvest will continue to generate significant cash flow, as well as on the Company’s intention to further improve its corporate governance.

Further upgrades of Metalloinvest’s ratings were carried out in the first half of 2014.

In February 2014, Standard & Poor’s raised Metalloinvest’s rating to BB with a Stable outlook.

In May 2014, Fitch upgraded Metalloinvest’s long-term rating and senior unsecured foreign currency rating from BB- to BB with a Stable outlook.

Metalloinvest continuously works to improve its information disclosure practices. The ultimate goal of enhancing Metalloinvest’s transparency is to boost the investment community’s confidence in the Company. Achieving this goal involves timely disclosure of significant information concerning:

- operational and financial performance;
- the Company’s strategic goals;
- significant corporate events in the periods between publications of the periodic operational and financial statements that are required to be disclosed;
- appointments to the Board of Directors; Board members’ qualifications, as well as the Board’s opinion with respect to their independence;
- the management of the Company and other related parties;
- the Company’s policy with respect to environmental protection, human resources and social activities.

In June and September 2013, the Company arranged site visits for investors and analysts. A delegation of investors and analysts visited Lebedinsky GOK and OEMK.

The efforts made to establish a dialogue with investors and analysts have resulted in increased interest in the Company from the investment community.

At present, the Company is covered on a regular basis by twelve leading investment banks: VTB Capital, Raiffeisen Bank, Rosbank, Sberbank CIB, UralSib, Bank of America Merrill Lynch, HSBC, ING, JP Morgan, Mitsubishi UFJ Securities, Société Générale and UBS.

In 2013, the Company attended more than 10 conferences and forums in Moscow and St. Petersburg, during which it held over 70 meetings with more than 180 investors and analysts.

In addition to taking part in conferences organised by investment banks, the Company is actively involved in arranging its own events for investors.

- In April 2013, the Company held another Investor Day, along with the announcement of its 2012 IFRS financial statements. Over 50 investors and analysts attended the event.
- In October 2013, the Company held a non-deal road show in Munich and Frankfurt and met with five investment funds.
Corporate Social Responsibility
In the context of its sustainable development approach, Metalloinvest has defined a long-term social responsibility policy to engage with its stakeholders. The policy provides for the following:

- strict observance of the law and ethical standards;
- continuous improvement of the quality of products;
- achievement of a reasonable balance between the Company’s business interests and the interests of its stakeholders (shareholders, investors, employees, customers and suppliers, authorities, as well as members of the communities where the Company operates);
- building relationships with stakeholders based on partnership, dialogue, openness and accountability;
- focus on projects where the impact of the Company is the greatest and where it can contribute to sustainable development;
- continuous improvement of the management and practices, using the best available expertise and technologies.

The principle of responsible business is laid down in the Code of Corporate Ethics. Key directions, principles and strategic objectives for improving the operational, financial, social and environmental activities of Metalloinvest are presented in the Memorandum of Corporate Social Responsibility.

At least every two years the Company issues its Corporate Social Responsibility Report, disclosing to stakeholders its economic, social and environmental performance.

We believe that the market position of Metalloinvest depends on how its stakeholders assess the Company’s activities. This includes all groups - consumers, employees and their representatives, investors, local communities, government and the media — whose activities may be affected by the Company’s operations, and those that may affect the feasibility of the long-term strategy of Metalloinvest.

As an important part of our efforts to improve efficiency and the sustainability of the business, we seek to understand the expectations of stakeholders and adopt measures aimed at meeting these expectations.

8.1 Social Responsibility: Interaction with Stakeholders

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For further information regarding the principles of responsible business please visit the Sustainability section on Metalloinvest’s website http://www.metalloinvest.com/en/association/policies-and-approaches/
INVESTORS

**How we interact**
- We organise briefings and hold presentations
- We arrange visits to the Company’s production facilities
- We publish reports on the Company’s activities
- We hold face-to-face meetings

**Investors’ expectations**
- Easy and timely access to price-sensitive information
- The increase of the Company’s investment attractiveness
- Growth in the Company’s value

**How we respond to the expectations of the investors**
- We provide timely and full-disclosure under quarterly reporting procedures
- We cooperate with ratings agencies to ensure the most accurate assessment of the Company’s investment case
- We implement investment projects and manage costs to improve performance and increase the Company’s value

CUSTOMERS

**How we interact**
- Meetings with clients, participation in conferences, meetings with industry associations

**Customer’s expectations**
- Consistent quality of our products
- Competitive pricing
- Timely supply

**How we respond to the expectations**
- We sign long-term contracts
- We provide efficient logistics solutions
- We ensure the smooth operation of key production units
- We upgrade equipment and facilities

GOVERNMENT AUTHORITIES

**How we interact**
- We hold regular meetings with the heads of regions and towns in the areas where the Company operates
- We enter social and economic partnership agreements

**Expectations of regional and municipal authorities**
- Maintain employment levels
- Limit the Company’s environmental impact
- Social programmes in the regions where the Company operates
- Support for regional social initiatives

**How we respond to the expectations**
- We invest in environmental protection
- We implement large investment projects, develop production and create new jobs
- We develop and implement social investment programmes in the regions where the Company operates

LOCAL COMMUNITIES

**How we interact**
- We hold regular meetings with representatives of local communities

**Expectations of local communities**
- We take into account the interests of local communities when performing our activities
- The Company supports local communities in improving their living standards

**Expectations of local communities**
- We implement corporate charitable programmes jointly with regional organisations for the benefit of local communities
- We support social activity in the regions where the Company operates
- We study and apply advanced domestic and foreign practices in interacting with local communities

Social programmes for Metalloinvest employees are focused on health and recreation for employees and their children, support for their families, and parents and retired employees.

In 2013, the budget for three major social support programmes for employees amounted to USD 36.3 million, including the costs for maintaining health and recreation facilities.

<table>
<thead>
<tr>
<th>Social programmes for employees</th>
<th>Spending in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and recreation for employees and their children</td>
<td>15.3</td>
</tr>
<tr>
<td>Support programmes for families and parents</td>
<td>1.9</td>
</tr>
<tr>
<td>Support programmes for pensioners</td>
<td>19.1</td>
</tr>
</tbody>
</table>

The Company lists the following priority areas of social investment and charitable activities in the regions of its operations:

- creation of a comfortable social and cultural environment (improved social and technical infrastructure, support for initiatives to improve quality of life and social services);
- support for education;
- improvement in the quality of health care services;
- support for vulnerable groups of population;
- promotion of entrepreneurship as a catalyst for the development of the services sector and an increase in employment levels.

In 2013, Metalloinvest spent USD 33.1 million on charity projects and social investment programmes aimed at the development of the regions where the Company operates.

Metalloinvest enters the top 10 Leaders in Corporate Charity 2013. At the VI annual national contest of Leaders in Corporate Charity 2013 Metalloinvest took 6th place in the overall ranking and 3rd place in the Mining and Steel category.

**MINING AND PROCESSING PLANTS OF METALLOINVEST RECOGNISED AS ENTERPRISES WITH A LARGE SOCIAL IMPACT**

Lebedinsky GOK won the regional section of the All-Russian contest Russian Organisation with a Large Social Impact in 2013 in two categories: For the Development of Human Resources in a Manufacturing Enterprise and For a Healthy Lifestyle in a Manufacturing Enterprise.

Mikhailovsky GOK won the regional section of the All-Russian contest Russian Organisation with a Large Social Impact in 2013 in the category For Participation in Solving Regional Social Issues and Development of Corporate Charity.
Metalloinvest’s main HR priorities are establishing a transparent personnel management system, which allows the Company to meet current production demand and implement strategic projects by having a qualified and target-driven workforce.

**Metalloinvest Enterprises Win a Nationwide Contest**

Metalloinvest enterprises - Lebedinsky GOK, OEMK and Ural Steel - won the X Industry Contest of Mining and Steelmaking Companies with a Large Social Impact, organised by the Association of Mining and Steelmaking Manufacturers of Russia and the Central Council of Mining and Steelmaking Trade Union of Russia. Lebedinsky GOK was declared the winner in the Health Protection and Safe Working Conditions category, and OEMK and Ural Steel in the Staff Development category.

**Personnel Development**

Building a transparent HR management system ensuring sufficient motivated and qualified personnel for the Company’s production activities and strategic projects is the key priority of Metalloinvest’s HR policy.

Metalloinvest seeks to apply new methods of workplace organisation, employee selection, training and professional development, and creates conditions to unlock employees’ potential and achieve better engagement.

We are proud of the following achievements in HR policy:

- the average period of employment in the Group is more than 10 years;
- the proportion of staff with higher and secondary professional education exceeds 50%;
- the average monthly remuneration is 50% higher than the average monthly remuneration in the regions where the Company operates.

The headcount statistics at Metalloinvest enterprises over the past five years reflect the Company’s consistent effort to increase labour productivity.

In 2013, the average headcount at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel amounted to around 44,000 people.

The decline in staff numbers was due to the phasing out of open-hearth production, a blooming mill and melting shop at Ural Steel, as well as measures to improve worker productivity at Lebedinsky and Mikhailovsky GOKs and OEMK.

The Company adheres to a policy of safeguarding the legitimate rights and interests of workers who have been made redundant. Along with the headcount optimisation at Ural Steel, the Company introduced a programme designed to minimise employee stress related to dismission, targeted retention of qualified staff, and provided support for retired workers in addition to the measures prescribed by law.

At the same time, the Company hired people for servicing new machinery and equipment at the new Pellet Plant #3 under construction at Mikhailovsky GOK and HBI-3 Plant at Lebedinsky GOK as part of the investment programme.

In addition, the increase in headcount at Lebedinsky GOK was the result of absorbing several repair shops and crushed stone production facilities into the unit.

In 2013, employee remuneration at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel amounted to USD 540 million, an increase of 3.1% compared with 2012, which was due to the indexation of wages in line with the rate of inflation, partially offset by a decrease in headcount.

The growth in average monthly employee remuneration at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel in 2013 totalled 6% compared with 2012.

Average monthly remuneration at Metalloinvest’s enterprises exceeds the average monthly wage in the regions where the Company operates: in the Belgorod Region — by 50.1% at Lebedinsky GOK and by 63.2% at OEMK; in the Kursk Region — by 52.3% at Mikhailovsky GOK and in the Orenburg Region — by 38.1% at Ural Steel.

In 2013, the gender composition of staff at Lebedinsky GOK, Mikhailovsky GOK, OEMK and Ural Steel remained unchanged.

Staff turnover at all plants is at a level which allows the Company to replace employees who left the Company or were dismissed in a timely manner. The lowest employee turnover was observed in the age group from 30 to 50 years, implying stability among the Company’s core teams.

The skill level of the Company’s employees continues to grow due to the Company’s training scheme.

In 2013, 99 people attended professional development courses under the Presidential Programme for Engineering Staff Development, 52 employees received professional training and 50 people attended managerial skills training.

As part of an initiative aimed at the promotion of professional development, Lebedinsky GOK obtained a permanent licence for its educational and training centre to conduct educational activities, as well as additional licences for 13 new professions, such as compressor installation drivers, installers of external pipelines, gas torch operators, installers of crushing and milling equipment and manual welders.

In 2013, Lebedinsky GOK and OEMK introduced measures to improve training facilities and purchased equipment for USD 789,000. This was done as a part of the Federal Programme for the Promotion of Education in 2011-2015 by the Ministry of Education and Science of the Russian Federation, which aims to improve education practices in colleges.
PROFESSIONAL SKILLS CONTEST

In 2013, five Company enterprises held the second Corporate Professional Contest for the following professions: repair worker, miller, turner, electrician, welder, driver of a passenger bus. The main purpose of this event, which is part of the Company’s continuous personnel training, is to raise the profile of key production roles, support the transfer of experience in key professions and improve professional skills.

ADVANCED TRAINING FOR ENGINEERING PERSONNEL

In 2013, 99 employees attended a number of courses: “Equipment for Steel-making and Mining”, “Modern Technologies of Metal Rolling” and “Modern Energy-Efficient and Resource-Saving Technologies” as part of the Presidential Programme for Engineering Personnel Development by the Ministry of Education and Science of the Russian Federation. The programme included, in addition to theoretical training, internships at Russian (MMK, Karelian Pellet, Severstal, Karchkanarsky GOK) and foreign production facilities with a view to demonstrating best practices in production processes. As part of a long-term collaboration with the Moscow Institute for Steel and Alloys (MISA), Metalloinvest launched training on mineral processing in Stary Oskol.

DISTANCE TRAINING

In 2013, with the aim of enabling preliminary training and pre-certification, the Termika licensing system for training in occupational health and safety was introduced at four mills.

OEMK completed a pilot project for implementing the Web Tutor distance learning system, put together a list of test questions to assess professional knowledge of its employees, and created tests for specialists in the repair and maintenance of electrical equipment and gas cutters and assistants for steelmakers at electric arc furnaces, among others.

MANAGERIAL TRAINING

Metalloinvest continues to implement a programme to develop management skills for senior and mid-level managers. The programme uses a cascade model for training in key managerial skills, situation management, time management, emotional intelligence and project management.

50 senior managers attended a Leaders of the XXI Century masterclass (led by international business speaker Jonas Ridderstrale).

PERSONNEL RESERVE

In 2013, Mikhailovsky GOK launched a project to identify selection processes for personnel reserve and approach to their professional development. The enterprise’s mining equipment repair unit and rail transport directorate were selected to test new HR procedures for their subsequent adjustment. These HR procedures will become a foundation for a unified procedure for personnel reserve across the Group.

AUTOMATION

The automation of HR processes (accounting, payroll, reporting, salary planning) was successfully completed at Mikhailovsky GOK.

INDUSTRY TARIFF AGREEMENT

With a view to sustaining the level of engagement in social partnership arrangements, Metalloinvest, as a member of the Board of the Association of Russian Metallurgists (AMROS), took part in the development and co-ordination of a new Industry Tariff Agreement (ITC), which was drafted in December 2013 by the Mining and Steel Union of Russia and AMROS. The new ITC was concluded for a three-year period from 2014 to 2016. The remuneration section of the agreement has been signed for 2014 and will be reviewed subject to social changes and changes in the economy.

The Industry Tariff Agreement regulates key parameters of the relationship between employers and employees in key areas: wages, social programmes, education, and health and safety. All companies in the industry are required to adhere to the ITC conditions.

EMPLOYEE ENGAGEMENT

Following best international practices, in 2013, the Company carried out the first study of employee engagement at Lebedinsky GOK, Mikhailovsky GOK, OEMK and the Management Company, with nearly 29,000 participants. The survey was conducted through a questionnaire developed by Aon Hewitt. The results showed that increasing the level of employee engagement may lead, along with other initiatives, to improved efficiency of operations.

The Company used the results as the basis for developing an action plan to address priority issues in 2014-2015. The ultimate goal of the project is to find a solution for issues and thereby improve the Company’s performance.

EMPLOYEE IMAGE

In 2013, the Company continued to implement a project aimed at further improving its image as an employer. Metalloinvest participated for the first time in the annual survey of Top 100 employers among students from leading universities and was ranked 30th in the Top 100 Engineering Companies. This was the result of a number of ongoing programmes for students from leading universities. Among such programmes is training for young graduates with prospective employment.
Occupational Health and Safety

The occupational health and safety of employees is a top priority for the Company and one of the key factors influencing the efficiency of its operations. The Company implements occupational health and safety measures in coordination with the schedule for key organizational activities and applicable collective agreements. In 2013, more than USD 62 million were allocated for programmes and measures related to occupational safety and industrial and fire safety (an increase of 7% over 2012).

The implementation of comprehensive programmes to improve working conditions that are comfortable and safe, developed based on workplace risks assessments, has helped to reduce the total number of accidents by 15% in 2013 compared to 2012.

The Company's enterprises regularly carry out work aimed at improving the quality and efficiency of personal and collective protective equipment. Over 10% of personal protective equipment (PPE), is supplied above the quota established by state rules on PPE supply, which provides an advanced level of protection to workers from hazards in the workplace. In 2013, USD 8.5 million was allocated to purchase PPE.

In 2013, OEMK won the The Best Organisation for Labour Protection and Production Culture Among Mining and Steelmaking Enterprises contest in the Belgorod Region.

Environmental Protection

In line with the Company’s principles of environmental protection, its enterprises meet existing state regulatory requirements, ensure sound and responsible use of natural resources, reduction of emissions, careful use of water resources, waste disposal and recycling and carry out land re-cultivation works.

Our enterprises gradually reduce the environmental impact of our operations through targeted investment in environmental protection measures. In 2013, more than USD 41 million was directed to environmental protection initiatives and to support the rational use of natural resources. The Company spent approximately USD 16 million on other activities related to environmental protection.

Among the most significant projects in regards to reducing the Company’s environmental footprint were the construction of a new Coke Oven Battery #6, which features a system of dust-free coke pushing with capture and purification of gaseous and particulate emissions and the phasing out of an open-hearth plant at Ural Steel; modernisation of the exhaust gas treatment of electric arc furnaces of the Electric Arc Furnace Plant (EAFP) and construction of water recycling and waste water treatment plants at OEMK. In addition, an indoor warehouse for pellets and modern gas-burning equipment to reduce dust and emissions will be built as part of construction of Pellet Plant #3 at Mikhailovsky GOK.

In 2013, the Company decreased the environmental footprint of its industrial facilities by reducing atmospheric emissions by 14% and discharge into water basins by approximately 17% compared to 2012.

Metalloinvest participates in the WSA project to collect data on greenhouse gas emissions in the steelmaking industry. In 2013, for the second consecutive year, the Company received a certificate for fulfilling its obligations to provide reliable data on CO2, calculated using the methodology of the WSA.

In the environmental management of the production processes our facilities adhere to the requirements of both national and international standards. In 2013, four core production facilities passed audits of their environmental management systems (EMS) for compliance with ISO 1400.
History of the company: key events

2012

The Company raised 25 billion RUB through its debut issue of ten-year rouble bonds with the maturity date in three years and a coupon rate of 9.0% per annum.

Metalloinvest sold its transport subsidiary Metalloinvesttrans to Globaltrans. The deal was worth USD 569 million.

OEMK was the only Russian company to win a Manufacturer of the Year award from the Schaeffler Group (2012 Schaeffler Supplier Award), the leading global producer of frictionless bearings. The award demonstrated that the quality of Metalloinvest products meets the highest international standards.

OEMK won a gold medal and a diploma for its contribution to environmental protection in the 100 Best Russian Organisations: Ecology and Environmental Management competition.

Standard & Poor’s assigned Metalloinvest a ‘BB-’ rating with a positive outlook.

Lebedinsky GOK completed the first stage of HBI-2 Plant’s modernisation. Mikhailovsky GOK began equipment installation at Pellet Plant #3.

Metalloinvest and MMK signed a three-year contract to increase shipments of iron ore concentrate and pellets to MMK. The agreement defined the pricing formula based on market indicators and price movements in the global iron ore market.

Metalloinvest launched a new corporate brand.

2011

Metalloinvest and NLMK signed four-year contracts for pellet supply. The volume of pellets to be supplied by Metalloinvest supply will be approximately 21.6 million tonnes and the price is based on a formula taking into account price movements in the global iron ore market.

Metalloinvest raised a USD 3.1 billion syndicated loan (PXF), the largest in Russia in the post-financial crisis period. In 2013, Metalloinvest paid back a USD 700 million loan ahead of schedule.

Moody’s assigned Metalloinvest a long-term rating of Ba3 with a positive outlook.

Fitch assigned Metalloinvest a long-term rating of BB- with a stable outlook.

Metalloinvest successfully issued USD 750 million Eurobonds with maturity in five years and a coupon of 6.50% per annum.

Metalloinvest signed the Memorandum on Corporate Social Responsibility.

2010

Metalloinvest was the first Russian metals and mining company to pass REACH registration.

IMC confirmed an increase in Metalloinvest’s proven and probable iron ore reserves from 13.8 billion tonnes to 14.9 billion tonnes according to JORC international classification.

A finishing plant at Rolling Mill 350 was put into operation at OEMK.

2009

Metalloinvest and Rosnedra signed a licencing agreement to develop the Udokan copper deposit.

2008

Gazmetall JSC was restructured into Joint Stock Company Holding Company Metalloinvest; the business’ legal status was changed from closed joint-stock company to open joint-stock company.

Ural Steel reconstructed Plate Mill 2800 and its electric furnaces, to provide a total capacity of 2 million tonnes of steel per year.

2007

Lebedinsky GOK completed the construction of HBI-2 Plant.

Mikhailovsky GOK introduced new concentrate flotation technology.

2006

JSC Metalloinvest’s assets (Mikhailovsky GOK and Ural Steel) were consolidated with the assets of Gazmetall JSC (Lebedinsky GOK and OEMK).
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