

# Novolipetsk Steel Corporate Responsibility Report 2007





Novolipetsk Steel  
**Corporate Responsibility Report**  
2007





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# 1

## Message from the President

Dear Reader,

As we review the past year we continue to inform you about the performance of our CSR strategy, and we are glad to offer you NLMK's second Corporate Responsibility Report compiled in line with the Global Reporting Initiative (GRI).

We deem sustainable development to be more than mere words, and instead a guide for real actions aimed at improving the company's internal policies and external social performance, as well as strengthening our economic and environmental performance. We are certain of our achievements and intend to make further progress. As we continue to introduce modern corporate social responsibility standards across the NLMK Group, it will help assure sustainable development of the Company over many years.

We have expanded the scope of the report by including information on our key subsidiaries. We look forward to engaging as many stakeholders as possible by improving the efficiency of programs pursued by the company in its regions of operation.

The acquisition in 2007 of a controlling stake in Maxi-Group provides a new impetus for the dynamic development of our company.

We are confident that this will strengthen NLMK's leading position in the domestic market and will allow us to better serve the needs of the expanding national economy.

In 2007, and as part of Phase 2 of our Technical Upgrade Programme, we have completed a number of new investment projects at both our main production site in Lipetsk and our subsidiary businesses. These projects pursue stronger product competitiveness, a wider product mix and improved environmental safety at our production operations. In 2007 NLMK Group spent about RUR 25 billion on Technical Upgrade Programme measures.

Over the past year, OJSC NLMK completed the final certification audit for compliance with the OHSAS 18001 Occupational health and safety management systems by the Bureau Veritas Certification international certification body. We intend to replicate these practices at all businesses within the Group.

By improving the effectiveness of our long-term cooperation with the public and government we are targeting positive changes in priority areas for social sector investments in the regions of the company's operations.

We continue to implement personnel and social policies which aim to enhance labour effectiveness and efficiency, and increase personnel satisfaction and loyalty by making management rules and procedures compatible with best international practices and standards.

I look forward to further productive cooperation and would like to express my sincere appreciation to all our partners for their interest, respect and trust in our mutual work.

Alexey Lapshin  
President/Chairman of the Management Board

# 2

## Scope of the Report

Within its annual reporting cycle NLMK presents its second Corporate Responsibility Report (hereinafter – the Report) produced in accordance with the third generation (G3) of the Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI).

The information disclosed in this CSR Report regarding the principles, goals and results achieved by the company in the field of corporate social responsibility seeks to inform the public and the company stakeholders.

The information presented in this Report relates to the year 2007.

In 2007 the Company produced its first CSR Report covering the 2006 reporting period.

The electronic version of the first Report is published on the Company web-site at [www.nlmksteel.com](http://www.nlmksteel.com)

While identifying the materiality of the information included in this Report, we relied on stakeholder feedback regarding the NLMK CSR Report for 2006. The company provides detailed information in the Report covering the social and environmental aspects of its operations. Information on the economic aspects of company operations featured in this Report is not exhaustive.

You are invited to follow the link below to obtain complete information in the form of consolidated US GAAP Financial statements: [www.nlmk.ru/about/figures/financial/year](http://www.nlmk.ru/about/figures/financial/year)

The Report has been expanded to include a Product Responsibility section. In its efforts to identify the potential audience of the Report, the company relied on its long-term cooperation with shareholders, investors, business partners (customers and suppliers), employees, trade unions, regional authorities and local governments, supervising/regulating agencies, and NGOs.

The Company continues to gradually expand the scope and boundaries of its Corporate Responsibility Reports, and this Report provides information about the core businesses included in NLMK Group perimeter and operating in the mining and metals sectors. The Report covers both consolidated data as well as breakdowns for individual businesses:

The following terms are used in this Report:

NLMK Group, NLMK, the company refers to businesses included in the OJSC NLMK US GAAP consolidated financial statements.

NLMK Group businesses for the purposes of this Report refers only to the following businesses: OJSC NLMK, OJSC Stoilenskiy GOK, OJSC Altai-koks, and VIZ-Stal LLC.

- OJSC NLMK, Lipetsk;
- Stoilenskiy GOK, Stary Oskol, Belgorod Region
- Altai-koks, Zharinsk, Altai Region
- VIZ-Stal, Yekaterinburg

This Report does not include information on Maxi-Group, subsidiaries with headcount below 1,000, as well as transportation and logistics businesses.

The Report does not cover joint ventures and businesses located outside the Russian Federation.

The Company intends to further expand the boundaries of its reports by including information on other subsidiary companies.

The Company seeks to help readers to obtain a clear opinion of NLMK's social mission and to further promote an environment of trust in mutually beneficial cooperation.

In order to develop an effective dialogue with all stakeholders, the Company invites all readers to express their views about the company's sustainable development efforts. To facilitate this process, the Report features a section with contact and feedback information.

Please share your views and comments regarding the format and contents of the Report and send any of your questions to the following address:

NLMK  
2 Metallurgov Square, Lipetsk,  
Russia 398040  
Fax (4742) 44 11 11  
e-mail: [info@nlmk.ru](mailto:info@nlmk.ru)



# 3

## Social Responsibility: Mission and Strategic Objectives

### Social Mission

The company sees its social mission as achieving sustainable development goals which are in line with its long-term economic interests, may contribute to community social welfare and conservation of the environment and observe human rights within its territory of operation.

### Social Responsibility: NLMK's Strategic Goals

The combined efforts of the company, its employees and the communities in which it operates are aimed to achieve the following strategic goals:

- Create a favourable and predictable social, political and economic environment for its employees and local communities;
- Improve corporate governance frameworks for the economic, environmental and social activities of the Company;
- Comply with international environmental protection standards. Focus on state-of-the-art technologies.
- Observe business ethics principles;
- Develop new types of products to meet customer expectations;
- Create an environment for the stronger performance of company employees.
- Ensure sustainable improvement in welfare and social safety for company employees and safe workplace environments;
- Prevent violations of applicable labour and human rights legislation;
- Combat corruption and terrorism.



# 4

## Company Profile

NLMK is one of Russia's largest steel product producers and is a vertically integrated group with a high degree of self-sufficiency in basic raw materials. Vertical integration and advanced technologies confirm NLMK's position as one of the lowest-cost steel producers in the world.

NLMK is known for its wide product mix with leading positions in Russia in electrical steel and coated rolled steel, the high quality of its products, extensive sales geography and developed customer base.

In 2007 NLMK Group, OJSC NLMK and VIZ-Stal LLC produced 9.2 million tonnes of steel. Our products are shipped to 80 countries worldwide. We export 70% of our products in physical volume terms.

In 2007 the company earned USD 7,719 million in consolidated revenue with an EBITDA of USD 3,366 million. For a number of years the company has been a leader of the global steel industry in terms of profitability.



\$ 40,9

The company's global depositary shares traded at \$40.9 at the end of 2007 with an implied capitalization of USD 24.5 billion.

NLMK shares are traded on the Russian stock exchanges (RTS and MICEX) and internationally as global depositary shares (GDS).

# 4.1

## Company Profile

# Group Structure



## Steel and Rolled Products

### NLMK

The company's main production site is located in the city of Lipetsk (450 kilometers from Moscow in Central Russia). The operations are situated in the immediate vicinity of key domestic transportation routes. The Lipetsk site has a capacity of more than 9 million tonnes of steel per year, with annual sales of more than 5 million tonnes of rolled products and around 4 million tonnes of slabs.

### DanSteel A/S

The Denmark-based producer of thick plate was consolidated in early 2006. It is located in the city of Frederiksvaerk on the Baltic Sea coast, and has a capacity of 0.5 million tonnes per annum.

### VIZ-Stal

VIZ-Stal is Russia's leading producer of electrical steel with capacity over 200,000 tonnes per year, located in Yekaterinburg, the Urals Region.

### Maxi-Group

Maxi-Group comprises several steel businesses within an integrated production system covering all stages from ferrous scrap collection and processing to rolled products. In December 2007 NLMK acquired a 50% plus 1 share equity stake in Maxi-Group.

The steel division manufactures billets (2.4 million tonnes), rebars (1.3 million tonnes) and metalware (0.55 million tonnes).

The scrap collection and processing division currently maintains 300 sites with an annual capacity of about 3 million tonnes, operating in 38 regions of Russia.

### Raw Materials

#### Stoilensky GOK

Russia's third-largest producer of iron ore concentrate, covering NLMK's growing demand of iron ore inputs. The operation is located at Stary Oskol in the Belgorod Region, within the Kursk Magnetic Anomaly region and close to NLMK's main steel production site in Lipetsk.

#### Altai-Koks

Altai-Koks is Russia's leading producer of high-quality metallurgical coke is located in the city of Zharinsk in the Altai region and has a capacity of 5 million tonnes of coke per year. It supplies products to the company's businesses and Russian and overseas markets.

#### Dolomite

Dolomite produces furnace dolomites and is located in the Lipetsk Region. In 2007 the company produced 2.1 million tonnes of products.

#### Stagdok

Stagdok is Russia's second largest producer of fluxing limestone. The operation is situated in the Lipetsk Region. In 2007 the company produced more than 3 million tonnes of products, with some 75% of its products shipped to the company's main production site in Lipetsk.

### Logistics and Infrastructure Assets

#### Independent Transportation Company (NTK)

Independent Transportation Company (NTK) is a transportation operator carrying raw materials, inputs and finished products for NLMK Group, and providing forwarding services to third parties. In 2007 NTK transported 47.5 million tonnes of cargo.

#### Tuapse Commercial Seaport (TMPT)

NLMK is the core shareholder of TMPT, the main operator of Russia's fifth-largest sea port located at Tuapse on the Black Sea. The sea port handles over 20 million tonnes of cargo every year.

### Joint Venture with the Duferco Group

At the end of 2006 the company acquired a 50% stake in JV with Duferco Group with a view to strengthen its leading positions in core markets and expanding its range of high value-added products. The joint venture comprises seven production operations in Belgium, France, Italy and the US, with a total capacity of 4.8 million tonnes for finished steel products as of 2007, and nine service centers in EU countries.

### Main products:

#### Coke

Coke is the main fuel used in a blast furnace to produce pig-iron. Coke is produced by processing coal.

#### Pig Iron

The company uses the bulk of its pig iron output for steel making in-house

#### Slabs

The company manufactures slabs for further processing in-house and for sales overseas.

#### Hot-rolled Steel

Hot-rolled steel products are used in engineering, railways, agricultural machinery, the automotive sector, and for pipes and storage tanks.

#### Cold-rolled Steel

Cold-rolled steel is used to manufacture the bodies of automobiles, tractors and agricultural machines, as well as in steel structures, stampings, household appliances, roofing and facing materials.

#### Hot-dip Galvanised Steel

Hot-dip Galvanised Steel is used to produce roll-formed sections, steel structures, and car and household appliances components.

#### Pre-painted Steel

It is used in steel structures, instruments, household appliances, roofing tiles, and other goods. Steel boasts high resistance to atmospheric corrosion, decorative qualities and combines strength and plasticity.

#### Transformer Steel

Transformer steel is used to manufacture power cores, distribution transformers of various capacities, large-scale electrical machinery, turbine and hydro generators, electrical welding equipment, and high and low-voltage electrical equipment.

#### Dynamo Steel

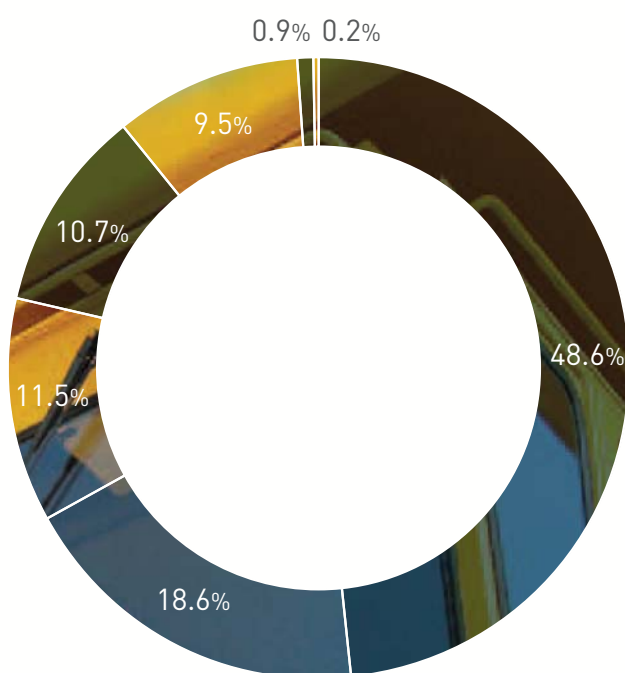
Dynamo Steel is used to manufacture stators and rotors of electric motors, generators of varying capacities, ballast transformers and other electrical equipment.



# 4.1

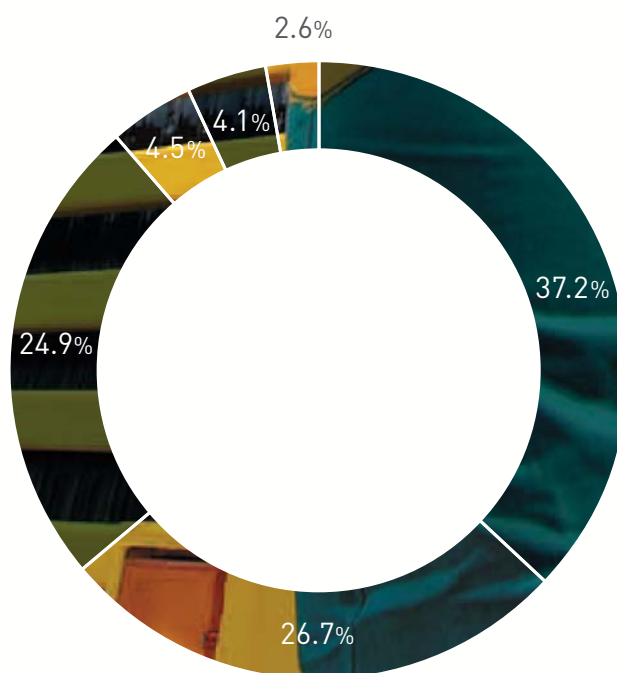
## Company Profile

NLMK Exports in 2007,  
by Product Type (in tonnes)



1. Slabs and billets	48.6%
2. Hot-rolled products	18.6%
3. Pig Iron	11.5%
4. Cold-rolled products	10.7%
5. Electrical steel products	9.5%
6. Coated rolled products	0.9%
7. Long products and metalware	0.2%

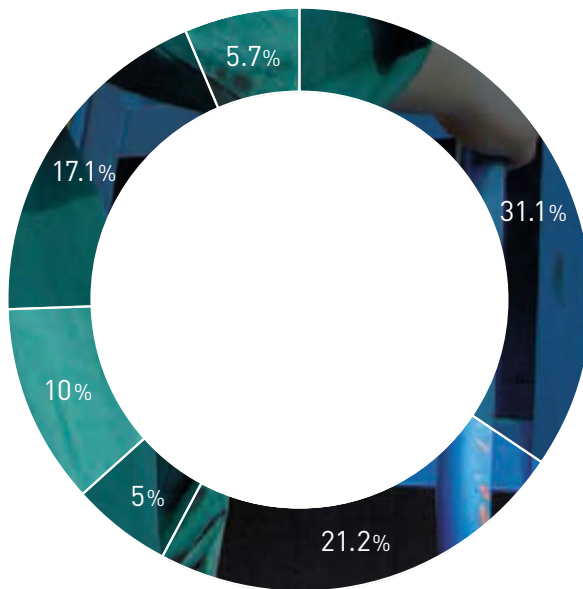
NLMK Domestic Sales in 2007,  
by Product Type



1. Hot-rolled products	37.2%
2. Cold-rolled products	26.7%
3. Coated rolled products	24.9%
4. Electrical steel products	4.5%
5. Pig Iron	4.1%
6. Long products and metalware	2.6%

## Group Structure

## Sales by Markets in 2007<sup>1</sup>



1. Domestic	31.1%
2. EU	21.2%
3. North America	5%
4. Middle East, incl. Turkey	10%
5. Asia and Pacific	17.1%
6. Other	5.7%

<sup>1</sup>In physical volumes

## Markets

The company's sales policy aims to fully meet demand, foster long-term relationships with customers by offering high-quality products at competitive prices, and timely and reliable delivery.



# Corporate Governance

NLMK's corporate governance framework ensures the clear separation of strategic and day-to-day management of the company between shareholder representative bodies and company managers.

Corporate governance is implemented in accordance with the Russian Federation Joint-Stock Companies Law, other regulatory acts governing the activity of joint-stock companies in the Russian Federation, the NLMK Charter, the Corporate Governance Code and the company's internal documents. The company adheres to international corporate governance practices in order to observe the rights and interests of its shareholders and investors.

## Corporate Governance principles as defined by the NLMK Corporate Governance Code:

- The company seeks to implement effective and transparent devices for providing the rights and interests of its shareholders stipulated in the applicable legislation, the Charter and other company documents;
- The company considers increasing the market value of its shares as one of its main aims;
- The company enforces a policy of equal treatment of all shareholders, either minor or major, Russian or foreign;
- The Company upholds the right of shareholders to participate in the administration of the Company by encouraging the participation of shareholders' in meetings, voting on issues included in the agenda, the prompt receipt of information on company activities, its administration, control and auditing bodies;
- The Company seeks to provide compliance with applicable legislation and international corporate governance standards.

The Company adheres to the following:

- The policy of observing third party rights, including creditors and employees of the Company, stipulated in the applicable legislation, Charter and other Company documents;
- The unified corporate policy in respect of the Company's subsidiary companies, associates and other legal entities in which the Company is the founder, participant or member;
- The policy of transparency of information;
- The policy of observing business ethics.

## Board of Directors

The NLMK Board of Directors defines the strategic areas of development for the Company and exercises general control over the Company's operations.

The Board of Directors serves as a guarantee that the Company will operate in accordance with the Charter, Corporate Governance Code and resolutions of the General Meetings of Shareholders. The Board comprises nine members. Members of the Board are elected at the General Meeting of Shareholders for a term of one year. The Chairman of the Board is elected from the Board by its members. The Chairman is currently Dr. Vladimir Lisin. Four out of nine members of the Board are independent directors.

The Board supervises the operations of the Company and assesses its performance and development based on information reported by the Board's committees, including the Strategic Planning Committee, Audit Committee, Personnel, Remuneration and Social Policy Committee.

### Strategic Planning Committee

The committee develops and submits to the Board recommendations on priority guidelines for the Company and its development strategies, including long-term measures to enhance the Company's efficiency, increase its assets, profitability and attractiveness for investment.

### Audit Committee

This committee develops and submits to the Board recommendations on the efficient control of the financial and economic activities of the Company, including the annual independent external auditing of financial statements.

### Personnel, Remuneration and Social Policy Committee

This committee drafts recommendations on human resources policy. It also deals with the social issues of the Company, environmental safety and cooperation with NLMK's primary trade union organisation (the Mining and Metal Trade Union of Russia), state and local authorities.

### President and Management Board

The President (Chairman of the Management Board) is the sole executive body of the Company. The collegial executive body of the Company is the Management Board.

The President manages the day-to-day operations of the Company and ensures the implementation of decisions made at the General Meeting of Shareholders and by the Board of Directors. At present, the President is Mr. Alexei Lapshin.

The Management Board consists of nine executive managers including the President. The membership of the Management Board is approved by the Board of Directors with advice from the President.

The Company's day-to-day social and environmental activities are run by the Management Board, its members being approved by the Board of Directors based on recommendations from the Personnel, Remunerations and Social Policy Committee. The President and Vice Presidents (members of the Management Board) place significant emphasis on the promotion of corporate social responsibility in the respective lines of business.



# 4.3

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## Company Profile

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# Risk Management

The Company sees non-financial risks as risks which may emerge within the context of its interaction with various key stakeholders. This includes government authorities, shareholders, employees, business partners, local communities, customers and suppliers, and understands these to include social, environmental, personnel, corporate governance, business partnership and other risks.

The Company manages non-financial risks by systematically engaging stakeholders through the regular monitoring of their interests, timely identification of risk-prone situations, by pursuing decisions acceptable to all parties involved and by introducing relevant changes to the Company operation. A key decision in risk management within the Company was the implementation of a framework of corporate governance standards involving a set of uniform policies, regulations, guidelines and procedures and common approaches to their realisation. Specific sets of corporate standards were developed for each group of risks, seeking to minimize their probability.

Government regulation risks stem from the possibility of regulatory decisions which may increase the operating costs of the Company. These risks may be mitigated by the continuous monitoring of applicable laws and regulations and regulatory initiatives affecting the business of the Company through meetings, consultations and conferences with legislators at various levels, by participating in focused discussions and media coverage reflecting the views of the Company.

Personnel risks are perceived by the Company as adverse developments in welfare and employment including a shortage of skilled labour, risks of industrial accidents, injuries caused by employees, or occupational diseases, etc.

In order to prevent personnel risks the Company has developed a set of corporate standards for personnel management which govern employee hiring and dismissal practices, training and professional skill assessment, procedures for awarding employees, youth engagement, the implementation of in-house social programs targeting employee health improvement and welfare, etc.

Against a background of an increasing shortage of skilled labour at the main production site in Lipetsk, in 2006 the Company experienced higher rates of voluntary employee terminations. This is directly linked to the development of the Lipetsk Special Industrial and Economic Zone, which constantly generates new employment opportunities in the region.

With an increased personnel turnover rate reaching 12.7% in 2006 there is a risk of losing younger skilled employees and of increased costs associated with the recruitment and training of new personnel. Based on a review of these developments the Company designed programs and took action to recruit and retain younger employees.

In January and March 2007 the Company introduced an average 26.5% increase in rates and salaries. Graduates who had entered into an employment contract with NLMK for the first time received lump-sum extra remuneration at the end of the calendar year whenever their actual wages happened to be below the standard minimum average monthly wage, which was linked to the graduation year for each respective learning institution.

In 2007, within the context of the housing program, up to one half of new apartments built by NLMK were assigned to promising employees below the age of 30. In addition, 50 young employees acquired apartments under preferential financing arrangements within the Housing for Young Steelworkers Programme.

The number of Best in Profession skill competitions was increased to improve the image of blue-collar jobs.

These programs resulted in a dramatic decrease in voluntary terminations and a 50% decline in the personnel turnover rate, which fell to 8.3% in 2007.

Further implementation of these programs will help maintain personnel turnover rates at a comfortable level for the Company.

Regional risks include social and environmental risks. The former are related to welfare developments in the regions where the company operates, and the latter are linked to the Company's environmental footprint.



The Company is mitigating social risks by undertaking programs to support small and medium scale businesses, social programs which promote the development of education, culture and sports, and which engage local governments on a regular basis.

Environmental risk factors are also mitigated by the introduction of corporate environmental and occupational safety standards, the effective monitoring of their application, and regular interaction with regulators and public bodies on environmental issues.

A key factor in reducing environmental risks is the integrated system for managing occupational health and safety and environmental protection and its certification in compliance with the ISO 14001 and OHSAS 18001 international standards.

The Company has designed a set of appropriate corporate standards to mitigate business partnership risks and foster a competitive environment.

Reputational risks are addressed by corporate standards applicable to key business processes, including disclosure, and the Company closely monitors their effective implementation, while developing an efficient engagement of the media.

In early 2008 the Company engaged a professional risk management advisor (MARSH Russia division) to assess the existing risk management system and to propose ways for its improvement.

The project is expected to identify and rank in order of significance all risks which may have an adverse impact on the Company, including non-financial risks. We expect to develop methods for managing key risks, allowing us to respond promptly to any threats to the interests of the Company.

At this junction the project will serve as a basis for the introduction of an integrated risk management system, resulting in improved business performance and transparency as well as lower non-financial risks for the Company.

### Communications Policy

The Company pursues a communications policy based on the following principles:

- Equal access to information by all shareholders, investors and other stakeholders.
- Regular and timely provision of information.
- Reliability and integrity of information.
- Prompt and accessible disclosures.
- Confidential treatment of information containing national, official or trade secrets and monitoring of use of insider information.

Information posted on the official Company website offers shareholders, investors and other stakeholders an opportunity to obtain the most detailed information on the Company's operations.

### Membership of National and International Organisations

NLMK is a member of the Russian Union of Industrialists and Entrepreneurs (RUIE) as well as a member of the RUIE's regional division in the Lipetsk Region. The Union is represented in legislatures of all levels, allowing the Company to take part in law-making activities, influence decision-making in the area of regional economic development, and maintain a transparent dialogue with the authorities and through this to steadily reduce business risks.

NLMK is a member of the International Iron and Steel Institute (IISI), which is the world's largest non-profit organisation of steel companies accounting, in aggregate, for more than 75% of world steel production. Membership of this authoritative organisation allows the Company to protect the interests of Russian steelmakers internationally in a more effective manner and to develop its business in line with common industry trends and strategic objectives. As a member of the International Iron and Steel Institute the Company takes an active part in the Steeluniversity.org educational project, an e-learning interactive portal.

# 4.4

## Company Profile

# 2007

## Calendar of Events

### February

VIZ-Stal LLC successfully confirms compliance with the Quality Management System ISO 9001:2000 international standard during an audit by Asea Brown Boveri (ABB), a world class customer.

Stoilenskiy GOK obtains a government certificate allowing it to take air, soil and ventilation measurements against 219 parameters, thus providing full-scale monitoring of the implementation of its integrated environmental protection program.

### March

NLMK wins a prize in the Top 100 Russian organisations. Environment and Environmental Management competition.

Mr. Vladimir Nastich, Senior Vice President , is awarded with the Environmentalist of the Year–2006 decoration.

Altai-koks wins the Gold Medal European Quality prize in the Top 100 Russian organisations. Environment and Environmental Management competition sponsored by the International Academy of Quality and Marketing.

Mr. Pavel Lizogub, Altai-koks' CEO, is awarded with the Environmentalist of the Year–2006 decoration.

Altai-koks obtains a patent for an invented special device, reducing emissions from product storage tanks at chemical operations. The use of the device helps achieve a 99.8% reduction in the average concentrations of hazardous emissions.

### April

NLMK obtains a certificate from the RF Ministry of Industry and Energy listing it in a register of organizations allowed to conduct energy examinations of industrial operations. This allows NLMK to conduct energy examinations of electrical and thermal installations and grids, as well as gas facilities for the purposes of designing and implementing effective measures aimed at energy conservation.

### May

Russian President Vladimir Putin signs a decree commending the employees of Altai-koks for their significant contribution to the development of the coke-chemical sector. Altai-koks becomes the first company in the region to receive a commendation from the Head of State for strong production performance.

### June

NLMK successfully passes supervision audits of Company quality management systems for compliance with the ISO 9001:2000 international standard, the EC-97/23/EG Directive and German Technical Rules AD 2000 W (for the manufacture of hot-rolled products).

## 2007. Calendar of Events

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July	The Government of Sverdlovsk Region recognizes VIZ-Stal as the winner in the industrial culture and occupational safety competition between businesses located within the Sverdlovsk Region. VIZ-Stal is awarded a Certificate of Merit from the Government of Sverdlovsk Region.
August	VIZ-Stal successfully confirms compliance with the Quality Management System ISO 9001:2000 international standard and the requirements of corporate TUN standards during an audit by Siemens GmbH, a world-class transnational customer for VIZ-Stal products.
September	The RF National Committee for Social Awards decorates the NLMK Security with the Saint Prince Alexander Nevsky, Grade I Order. The effectiveness of the NLMK security arrangements is confirmed by the absence of criminal influence, terrorism, embezzlement, and financial and economic fraudulent actions.
October	<p>The Altai-koks quality management system complies with the ISO 9001 international standard for the manufacture of coke and chemical by-products. As was identified during a recent audit by representatives of the TUV CERT (Germany) certification authority, Altai-koks was the first business in the Altai Region to complete certification for compliance with the ISO 9001 standard, confirming the businesses' achievements in quality management.</p> <p>Based on the results of the annual re-certification audit, BSI MS confirms that VIZ-Stal quality management systems comply with the requirements of the ISO 9001:2000 international standard and that the certificate remains valid.</p>
November	NLMK successfully completes certification for compliance with the OHSAS 18001:2007 Safety and Health Management Systems international standard.
December	<p>NLMK becomes a winner in the All-Russian competition Leader in Environmental Protection in Russia-2007. The winner's certificate was awarded to the Company during the III All-Russian Environmental Conference titled New Priorities for National Environmental Policy in the Real Sector.</p> <p>Vocational training school No. 10, a primary training institution for NLMK skills, hosts the All-Russian Conference State Support for Basic and Mid-Level Vocational Training Establishments Pursuing Innovative Educational Programs. The conference was organized by the RF Ministry of Education and Science, the Federal Education Agency and the National Personnel Training Foundation. Participants in the conference were offered an example of cooperation between VS-10 and NLMK.</p> <p>The Stoilenskiy GOK integrated quality assurance and environmental management system complies with ISO 9001:2000 and ISO 14001:2004 standards. This was confirmed in the course of an audit by the Det Norske Veritas certification authority.</p> <p>Stoilenskiy GOK becomes the first business in the region to confirm that its integrated systems comply with international standards.</p>



# 5

## Stakeholder Engagement

NLMK perceives corporate social responsibility as a consistent framework of activities involving the selection and application of methods for the most effective engagement of key stakeholders, resulting in the approval of decisions acceptable to all parties.

The Company has relied on its long-standing cooperation with stakeholders and has considered the extent of their influence over the NLMK Group when identifying key stakeholders.

This approach generated the following list of stakeholders: Company employees, shareholders and investors, customers and suppliers, government regulators and supervisors, trade unions, NGOs, local communities within Company areas of operation, including potential employees.



# 5

## Stakeholder Engagement

### Stakeholder Map

Description	Composition	Issues of Interest	Engagement Methods
Employees	Manufacturing staff; office staff; specialists; managers.	wage and salary levels; monetary and non-monetary incentives; professional development (career); social benefits (fringe benefits); compliance with labour regulations; work environment and safety, industrial comfort and culture; environmental issues; team spirit; housing conditions; transportation arrangements (commuting to and from work); site security and clearance arrangements; communications on the Company's operations; health improvement and leisure; medical care; fitness and sports; rights protection and social guarantees.	opinion polls; Dial 06 counselling service; union meetings; appointments to discuss personal issues; shift meetings; media, including corporate publications.

## Stakeholder Map

Description	Composition	Issues of Interest	Engagement Methods
Shareholders and Investors	<p>FLETCHER GROUP HOLDINGS LIMITED; Deutsche Bank Trust Company Americas (beneficiaries include holders of global depositary shares traded at the London Stock Exchange);</p> <p>LKB-INVEST Investment and Financial Company LLC;</p> <p>companies where NLMK managers are beneficial owners;</p> <p>shareholders who have purchased free-float shares, including at Russian stock exchanges;</p> <p>other shareholders and investors.</p>	<p>Operational and financial performance; Company strategy, including:</p> <p>M&amp;A policy;</p> <p>technology upgrade and development;</p> <p>financial and non-financial risks;</p> <p>dividends;</p> <p>corporate governance;</p> <p>free-floating ordinary NLMK shares available through Russian stock exchanges;</p> <p>outstanding global depositary shares issued by NLMK and traded at the LSE.</p>	<p>Meetings with the Company's senior managers;</p> <p>annual reports and financial statements;</p> <p>quarterly performance presentations;</p> <p>conference calls to discuss quarterly, six-month and annual performance;</p> <p>media publications;</p> <p>website.</p>
Customers	<p>Russian businesses; foreign businesses;</p> <p>NLMK Group businesses;</p> <p>trading companies.</p>	<p>Fulfillment of contractual obligations ;</p> <p>product quality;</p> <p>product prices;</p> <p>timely review and resolution of customer complaints and claims;</p> <p>technical upgrade and development;</p> <p>operational and financial performance</p> <p>financial and non-financial risks.</p>	<p>Annual reports and financial statements;</p> <p>conferences, forums, business meetings;</p> <p>Russian and international trade unions and organizations;</p> <p>media publications;</p> <p>website.</p>

Description	Composition	Issues of Interest	Engagement Methods
Suppliers	Russian businesses, including "State monopolies"; NLMK Group businesses; foreign businesses.	Fulfillment of contractual obligations; product quality; product prices; timely review and resolution of supplier complaints and claims; operational and financial performance financial and non-financial risks.	Annual reports and financial statements; conferences, forums, business meetings; Russian and international trade unions and organizations; media publications; website.
Government bodies	Federal Government bodies; regional governments; local authorities; Government regulators and supervisors.	Compliance with applicable laws; Social and economic development of regions; protection of the environment.	Participation in government work, including legislatures; participation in international and Russian professional and public organizations; meetings, dialogues, etc.; media.
Trade Unions	Trade unions at NLMK, Stoilensky GOK, VIZ-Stal, Altai-koks; Russian Union of Mining and Metallurgy Workers.	Compliance with industry tariff agreements; compliance with collective agreements; compliance with labour regulations; awareness of the Company's operations; wage levels and social benefits for employees; work environment and labour safety.	Conferences and meetings; discussion and execution of collective agreements; labour dispute commissions; collective agreement compliance committees; social security committees; occupational safety and health committees; housing policy committees; youth engagement committees; skill qualification and review committees; consultations on in-house regulations relating to labour law.

## Stakeholder Map

Description	Composition	Issues of Interest	Engagement Methods
Public Organisations	Environmental organizations; veterans' organizations; women's organizations; youth organizations; charity organizations.	Compliance with applicable laws; environmental issues; social and economic development of regions; charity.	Conferences, clubs, meetings and other events; media; letters; website.
Local Communities	Communities in the Company's areas of operation	Social and economic development of the region; environmental issues; public health; funding for charity programs; awareness of the Company's operations; reliable and transparent information.	Media; through representatives of public organizations; through legislators at various levels.
Potential Employees	Students of schools and other educational institutions.	Wage levels; working environment; career opportunities; awareness of Company operations; social benefits (fringe benefits).	Career advice; conferences, meetings; innovation projects; company internship programs; media.

The Company conducts regular research into the opinions of key shareholders through polls and consultations, engages them in discussions and meetings of working groups to review specific issues, as well as through standing committees, etc.

By developing a framework for stakeholder engagement the Company seeks to improve available opportunities for maintaining dialogue with a view to quickly identifying issues and concerted solutions.





# 6

## Local Community Development

The Company recognizes that the long-term sustainability of its business depends on a stable social and economic environment in the regions of operation. That is why we find it strategically advisable to pursue a policy of corporate social responsibility to both our employees and local communities.

Sustainable regional development is an important component of the Company's development strategy, and we pursue a number of long-term programs focusing on several priority objectives:

- Promote sustainable development;
- Support a stable social and economic environment of local communities;
- Develop partnerships with regional and local governments;
- Create comfortable living conditions for Company employees and local residents;
- Establish and maintain the reputation of a conscientious employer.

NLMK Group is a major taxpayer in almost all regions of the Company's presence. In view of this we see as a priority for corporate social responsibility full compliance with applicable laws and payment of corporate income taxes in the regions where income is generated. Taxes paid by the Company help foster the development of other manufacturing sectors, agriculture, construction and social welfare.

The Company economically influences the regions where it operates.

The Company makes a significant contribution to employment opportunities for local residents.

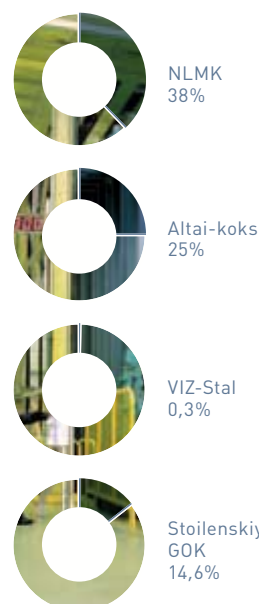
Almost all NLMK Group employees are residents of local communities.

The Company contracts some 300 businesses with more than 9,000 employees for its construction and maintenance needs, thus increasing the number of jobs and reducing unemployment in the regions.

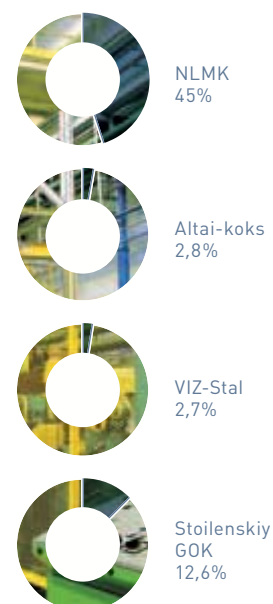
The Company provides economically sound and competitive wages, welfare guarantees and fringe benefits that it provides as investments in human capital.

## Share of NLMK Group Taxes in Government Budgets

### Municipal Governments



### Regional Governments



Company employees play an active part in the legislative activities of municipalities and regions of the Company's presence; as elected members of municipal and regional legislatures they also participate in the design and implementation of local programs for social and economic development. NLMK employees are also represented in the Public Chamber, and regional charters of the Russian Union of Industrialists and Entrepreneurs and other civil organizations.

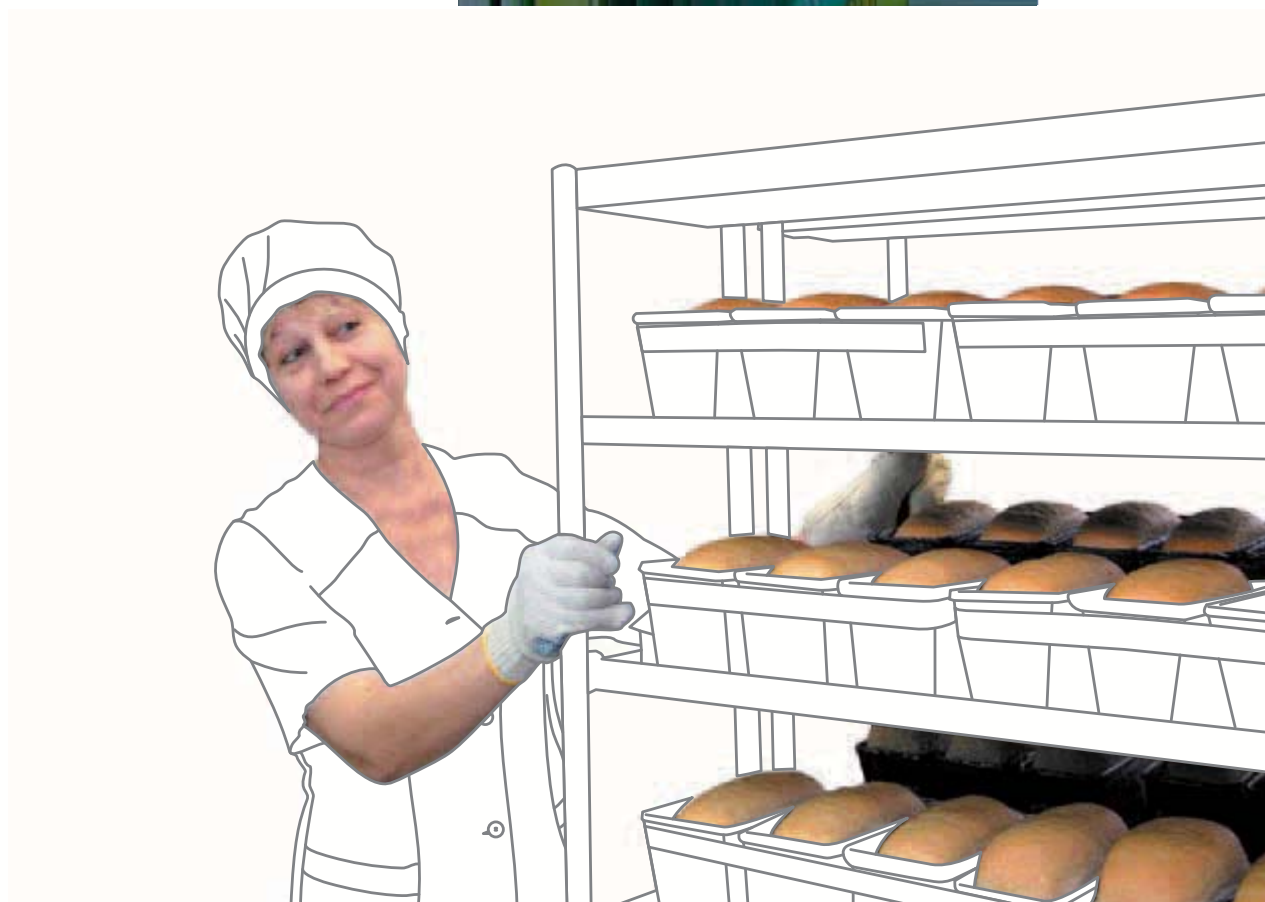
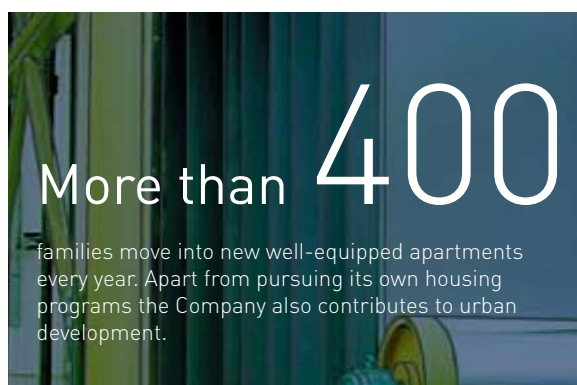
# 6.1

## Local Community Development

# Social Infrastructure Improvement

In cooperation with local authorities the Company is involved in improving models for managing housing facilities, improving efficiency and transparency of welfare spending in cities where the NLMK Group is located.

For many years the Company has been actively involved in the construction of homes in Lipetsk.



# Promoting Sports, Culture and Health

The Company sponsors sports schools and facilities, clubs and athletes.

Charitable assistance programs are mostly channeled through the Miloserdiey foundation for social welfare, which are targeted by NLMK to promote fitness and sports, culture, arts and health care.

In 2007 the Company donated around RUR 200 million to these programs.

NLMK is actively involved in high performance sports and sponsors the Olympic teams.

In 2007 NLMK donated RUR 81 million to the non-profit Russian Olympians Support Foundation and RUR 26 million to the Sochi-2014 Olympic Bid Committee.

The funding is allocated to maintaining sports facilities and structures (stadiums, arenas, gyms, etc.) and purchasing sporting equipment.

Construction of a multi-purpose sporting arena in Lipetsk began in August 2007; the facility will have an area of 2,310 sq. meters with an estimated cost of RUR 200 million. It will house two indoor tennis courts with modern playing surfaces, and facilities for billiards, bowling, squash, table tennis, work-out rooms, aerobics rooms, and a rehabilitation center. The construction of the facility is fully financed by NLMK.

NLMK sponsors the Lipetsky Metallurg sports club and plays an active part in promoting shooting in Russia. The SC Lipetsky Metallurg shooting centre is one of the best in Russia, with state-of-the-art equipment allowing it to host international events. In 2007 it hosted two national trap-shooting championships and regional competitions, and provided training facilities for the Russian junior national team.

Mr. Vitaly Fokeyev is the best shooter at SC Lipetsky Metallurg.

In 2006 Vitaly won the trap-shooting championship in Zagreb and the World Cup final in Granada.

Vitaly has been named a Merited Master of Sports of Russia, and his coach Ms. Irina Kravchuk was awarded the title of Merited Coach of Russia. Today Vitaly remains the best shooter in double trap.

A team of trap-shooters from Lipetsk won the Russian national championship in 2007.

Mr. Alexander Bondar of SC Lipetsky Metallurg became Russia's champion in double-trap at the event, while Ms. Angela Mescheryakova, another club athlete, won the gold in the women's competition.

The Company assists in providing creative development activities for children, studios, libraries, museums, art galleries, and provides funding for the preservation and proper maintenance of historical monuments and architectural landmarks, and other cultural, religious and historical sights.

NLMK is the founder of the Novolipetsk Medical Center non-profit organization which provides medical care and rehabilitation services for Company employees and local residents.



# 6.3

## Local Community Development

# Engaging the Younger Generation

Creating an image of the most accomplished employer in the region is a pre-requisite for helping the Company to recruit creative and technically skilled personnel. By assisting the younger generation to obtain advanced knowledge and skills the Company is creating a talent pool for the future. The Company spent RUR 20 million for these purposes in 2007.

As part of its sponsorship and charity work the Company is funding improvements in the infrastructure of kindergartens, secondary schools, high schools, vocational training schools, creative learning centers, orphanages and boarding schools.

The Company provides funding for the maintenance and renovation of facilities, the procurement of equipment and modern learning aides, computers and sporting goods.

Career guidance for students plays a special role and is provided on a continuous basis by Company employees. It involves a number of programmes and events, including the following:

- Open House events for school students at vocational training institutions;
- Tours around the facilities;
- Training programmes for school children, including Internet Vacation, E-Vacation, the Young Steelworker's School, and A Start in Science;
- Competitions in English, drawing, writing and applied arts.

The Company maintains the NLMK Student targeted program to foster longer-term personnel capacity, which provides tuition support to children of Company employees attending the best technical and economic higher education establishments in Russia. The NLMK Student program currently supports 45 students.

The Company offers students internship opportunities at NLMK Group. During their internship students are supervised by experienced workers and technicians.

This allows students to gain on the job training and a detailed insight into the production process, become part

of the team, test their skills and gain experience from their mentors, while the Company displays the opportunities of exciting employment and personal development to its potential employees.

In 2007, with active the involvement of NLMK, the Lipetsk Vocational School No. 10 became a winner in the Education Priority National Project.

NLMK is an employer of choice for graduates of this vocational school. Vocational School No. 10 won a Government grant of RUR 28.6 million, and the Company donated another RUR 28.6 million to the institution to equip it with training and laboratory equipment. The Company also spent an additional RUR 40 million to renovate the school plant and premises, pay salaries to the faculty, offer increased allowances to students with strong and excellent academic performance, design and make new school uniforms, purchase text books, etc.

During the summer break the Company welcomes its employees' children, as well as children from low-income families and orphanages to its health resorts and recreation facilities.



## 6.4

### Local Community Development

# Support for Vulnerable Households

The Company provides support to vulnerable households. As part of its charity programmes the Company offers monthly benefits, medication and medical care support, and treatment at health resorts and rehabilitation medical centres for pensioners and veterans of the World War II, many of which had previously been Company's employees.









# 7

## Environmental Footprint

NLMK's environmental protection policy aims to prevent any impact that NLMK Group's production and economic operations may have on the environment.

NLMK's Technical Upgrade Programmes are based on environmental priorities, thereby preventing possible environmental impediments in the development of the Company.

Nature conservation efforts are pursued by the Company within the framework of its Environment Management System (EMS), which complies with the requirements of the ISO 14001:2004 Environment Management System international standard.

The EMS was introduced at OJSC NLMK in 2002, and in 2005 OJSC NLMK successfully passed the re-certification audit by TÜV CERT (Germany), further confirmed by follow-up supervisory audits in 2006 and 2007.

In 2007 the ISO 14001:2004 Environment Management System compliant EMS was introduced at Stoilensky GOK and was successfully certified by Det Norske Veritas (Norway).

Altai-koks is in the process of designing a management system which conforms to ISO 14001:2004.

The Company displayed its leadership and commitment to protecting the environment at the METALLEXPO-2007 international exhibition, where NLMK presented for the first time its EcoSteel innovative business strategy ([www.ecosteel.ru](http://www.ecosteel.ru)), which implies:

- High-technology products;
- Modern environmentally-friendly methods for mining and processing raw materials, producing crude steel and rolled products;
- Zero-conflict production environment;
- Natural environment of impeccable quality.

In terms of sustainable development the EcoSteel business strategy is based on the following principles, which stem from the Company's environmental policy:

- corporate responsibility for the environment;

- Production upgrades in line with best available technology;
- Streamlined use of natural resources;
- Efficient use of waste energy;
- Recycling of current and accumulated wastes (Zero-Waste concept).

The environmental effectiveness of NLMK activities in nature conservation is defined by the following:

- Long-term planning;
- Environmental criteria as the main priority for technology upgrade;
- Anticipatory stance on resource sufficiency;
- Efficient environmentalism.

In 2007 the consistent implementation of strategic environmental objectives brought about a steady trend towards a decline in the negative environmental impact produced by NLMK Group despite a 6% increase in product output compared to 2006.

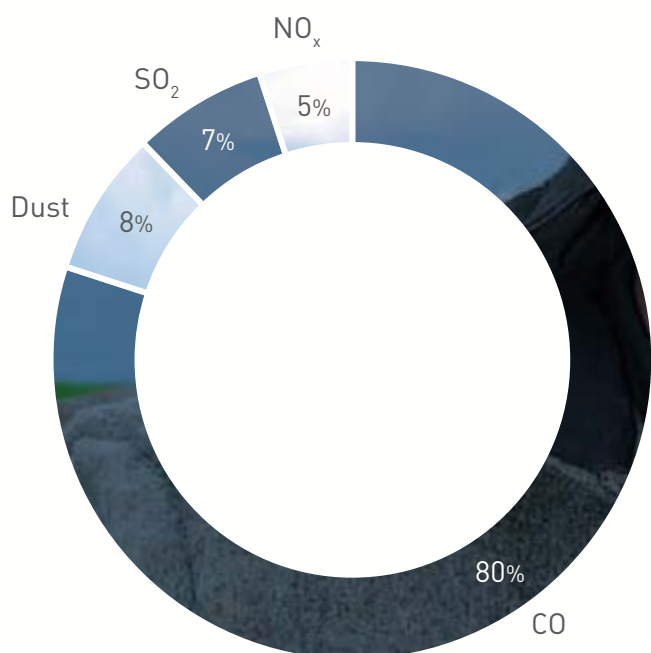
### Atmospheric Impact

In 2007 NLMK Group gross emissions declined by 2.6% compared to 2006 and amounted to 3384 thousand tonnes per annum.

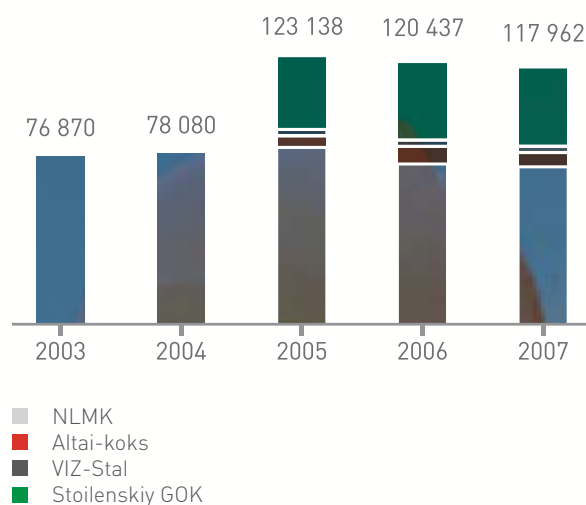
The major components of these emissions are:

- carbon monoxide (80%),
- dust (8%),
- sulphur dioxide (7%),
- nitrogen oxides (5%).

### Company Emissions, by Major Pollutants



### Water Consumption by NLMK Group Businesses, thousands of cu.m



Data for 2003-2004 only for NLMK (Lipetsk)

NLMK's production site in Lipetsk accounts for the bulk (over 90% in emissions volume) of the Company's environmental impact. With crude steel output of 9.056 million tonnes in 2007 gross emissions amounted to 308.3 thousand tonnes, a 2.5% decline year-on-year.

The best air protection performance in 2007 (compared to 2006) was shown by:

- Altai-koks (gross emissions reduced by 6.1%), and
- NLMK's Lipetsk site (emissions reduced by 2.5%).

At the same time, gross emissions increased at:

- Stoilensky GOK – by 44% (while remaining unchanged on a per tonne of product basis), and
- VIZ-Stal – by 0.7% (with a decline in specific emissions).

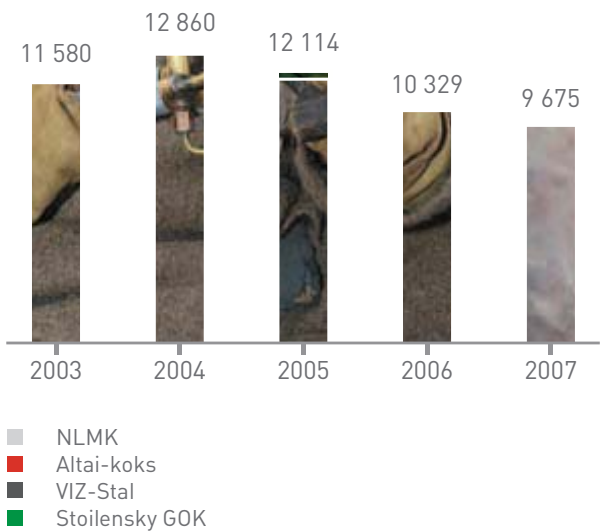
### Impact on the Water Basin

In 2007 NLMK Group's water consumption declined by 2.1% (to 118 million cu. m) compared to 2006. The volume of pollutants discharged with effluents declined by 6% to 9700 tonnes.

The Company demonstrated significant progress in its efforts to protect the water basin in 2007 compared to 2006. Stoilensky GOK stopped discharging pollutants into surface-water bodies, while VIZ-Stal reduced its discharge by 28.6%, and OJSC NLMK by 6.2%.

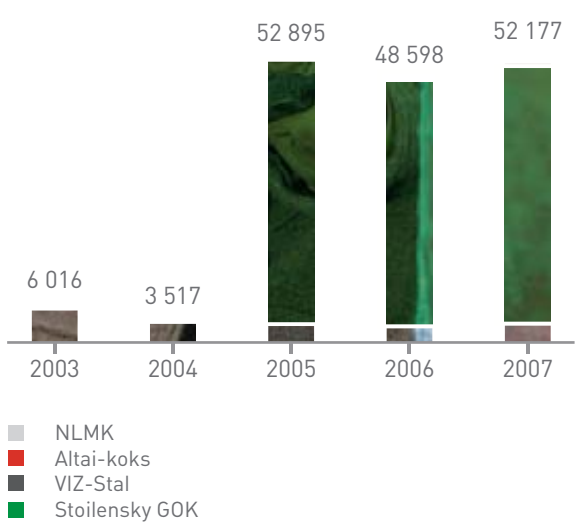
OJSC NLMK mitigated its impact on the Voronezh River water basin by reducing its annual water consumption to 71.25 million. cu. m (a 2.0% decline) and its discharge of industrial effluents to 9.65 thousand tonnes (a reduction of 6.2%).

Discharges of Pollutants  
by NLMK Group Businesses, tonnes



NLMK Group's businesses which do not discharge pollutants (Altai-koks; Stoilensky GOK from 2007), and with discharges of less than 25 tonnes per year (VIZ-Stal) do not appear on the graph. Data for 2003-2004 is only for NLMK Lipetsk production site

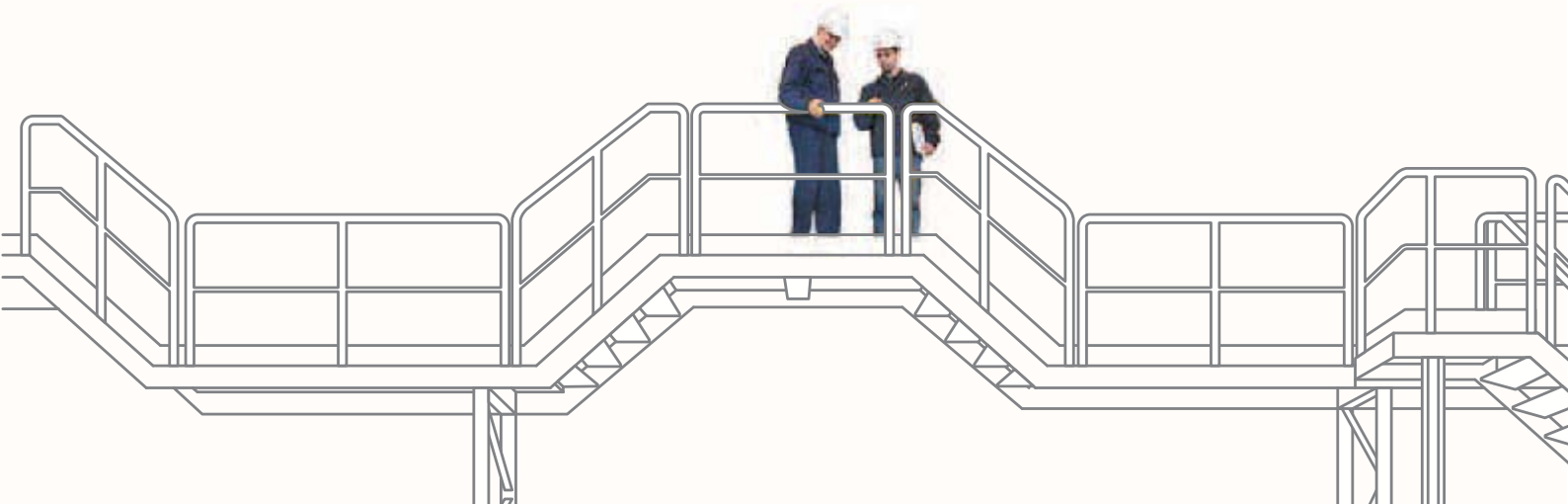
Waste Generation by NLMK  
Group Businesses, thousands of tonnes



Businesses with waste generation volumes below 100,000 tonnes per year (VIZ-Stal, OJSC Altai-koks) are not reflected on the graph (colored lines). Data for 2003-2004 only for NLMK Lipetsk production site]

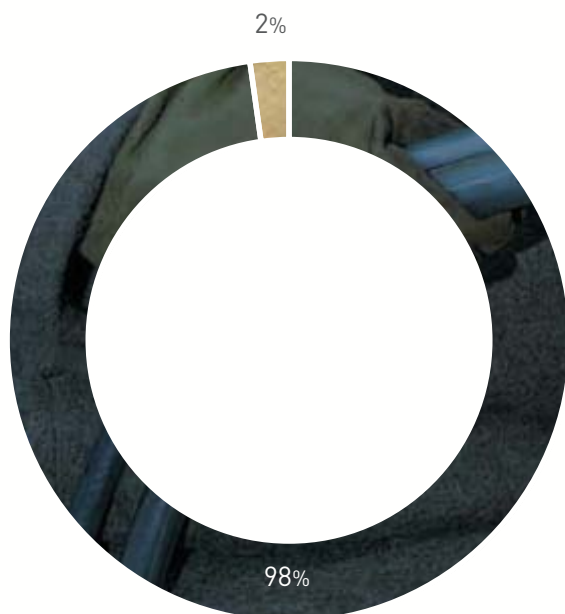
## Waste Management

In 2007 the amount of waste generated by NLMK Group increased by 7% and reached 52 million tonnes. The increase in waste generation since 2005 was caused by the consolidation of Stoilensky GOK, a mining business with large amounts of waste (overburden and barren rock).



Overall the share of recycled waste increased almost two-fold on 2007 year-on-year and reached 15.5%. The relatively low waste recycling rates are due to overburden (more than 92% of total waste). Waste generated by NLMK Group is classified as low hazard waste. 98% of these are Grade V hazard and 2% are Grade IV hazard.

### Waste Generated by NLMK Group Businesses, by Hazard Grade

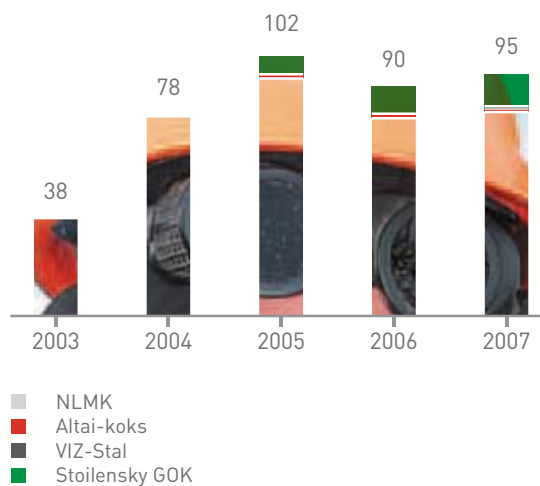


1. Grade I - Extreme Hazard - 0%
2. Grade II - High Hazard - 0%
3. Grade III - Moderate Hazard - 0%
4. Grade IV - Low Hazard - 2%
5. Grade V - Little or No Hazard - 98%

### Environmental Taxes and Charges

Environmental taxes and charges paid by NLMK Group in 2007 reached RUR 95 million, an increase of 5% year-on-year. The State Economic regulation for nature management is reflected in the growth (positive trend) of charges for damage to the environment along with reductions in the impact on its various components.

### Charges Paid by NLMK Group Businesses for Environmental Damage, RUR, million

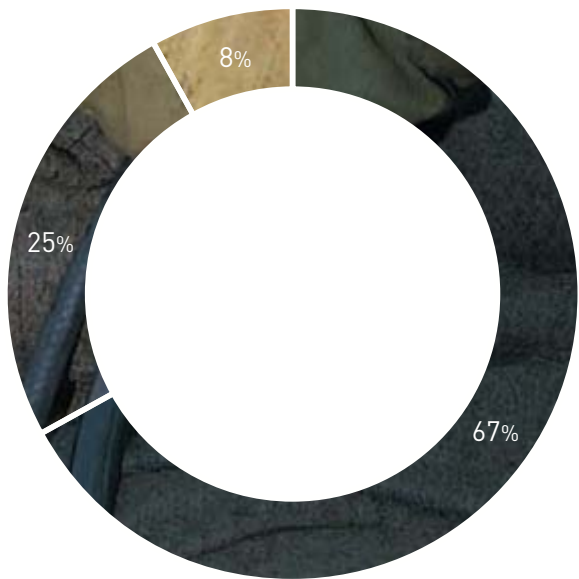


NLMK Group businesses charged below RUR 300,000 per year (VIZ-Stal) are not represented on the graph.  
Data for 2003-2004 only for NLMK Lipetsk production site

A key element of the environmental charges paid by NLMK Group is a waste disposal fee which accounts for 67% of the overall amount of payments, followed by the water pollution fee (25%), and air pollution fee (8%).

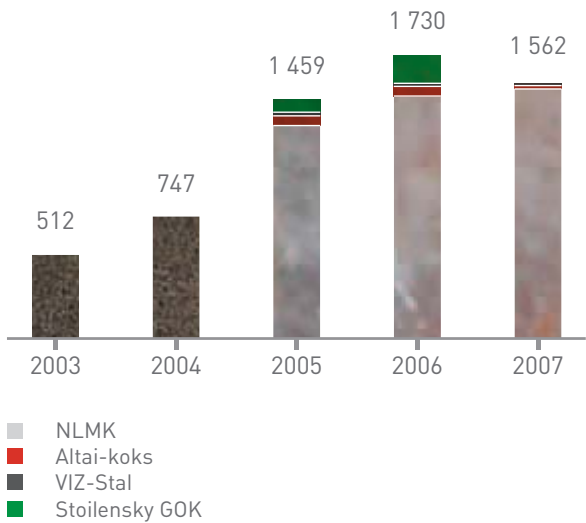
## Environmental Footprint

### NLMK Group Environmental Damage Payments Structure



- 1. Waste disposal 67%
- 2. Water pollution 25%
- 3. Air pollution 8%

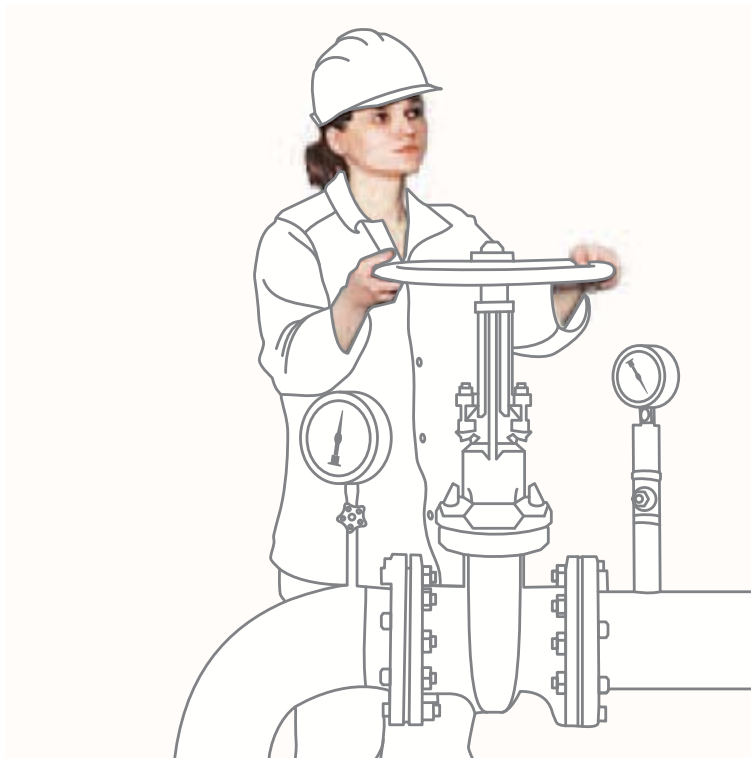
### Nature Protection Spending by NLMK Group Businesses, RUR, million



Businesses with expenditure less than RUR 3 million per year (VIZ-Stal; Stoilensky GOK in 2007) are not reflected on the graph (colored lines). Data for 2003-2004 only for NLMK Lipetsk production site

### Environmental Protection Expenses

The reduction in the negative impact on the environment is driven by regular NLMK investment activities. Environment-focused technology upgrade investments by the Group in 2007 reached about RUR 1,562 million and have been increasing at a positive rate for the past three years.



# Protecting

## the Environment and Environmental Performance

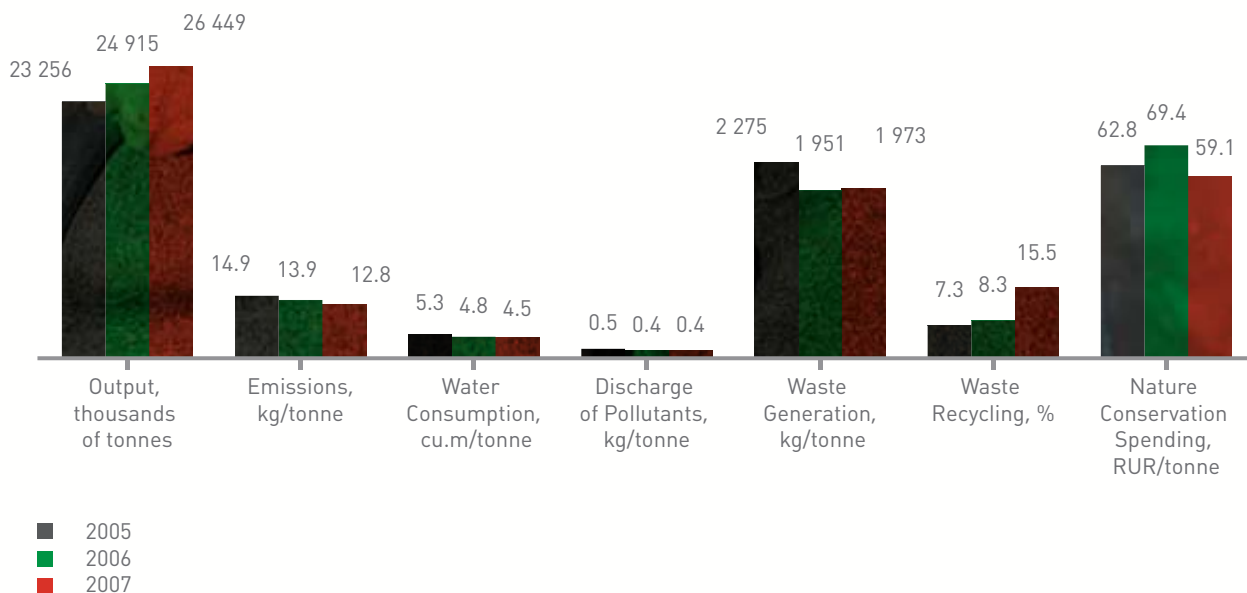
With increased product output, NLMK Group was successful in terms of reducing a negative impact on the environment (amount of emissions and effluents, level of waste recycling).

Environmental protection activities are undertaken within the framework of long-term technology upgrade programmes: Phase 1 Technical Upgrade and Development Program (2000–2006), and Phase 2 Technical Upgrade and Development Program.

In 2007 NLMK and Altai-koks, out of 400 businesses from 50 regions, won Russia's 100 Best Corporations competition. Ecology and Environmental Management competition for showing strong positive progress in environmental indicators.

Based on its performance in 2007, NLMK became the winner in the Third All-Russian Leader in Environmental Protection in Russia-2007 competition.

### NLMK Group





## Protecting the Environment and Environmental Performance

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# 4,8 billion

NLMK spent RUR 4.8 billion on environmental protection projects as part of its Phase 1 Technical Upgrade Programme

# 10 billion

Environmental protection projects worth RUR 10 billion are envisaged under Phase 2 of the Technical Upgrade Programme (environmental protection spending is to increase more than two-fold with steel output increasing by 40%).

# 33 million

NLMK spent more than RUR 33 million in 2007 for the improvement and landscape development of the Lipetsk industrial site, planting almost 30,000 trees and shrubs, more than 8 hectares of new lawns and flower beds, and 9 hectares in reclamation and improvement of land previously used for storing industrial waste.



# Energy Conservation

NLMK aims to manufacture products of targeted quality and quantity at minimum costs by introducing energy conservation measures and energy efficient equipment and processes.

The company's energy conservation strategy aims to achieve the following:

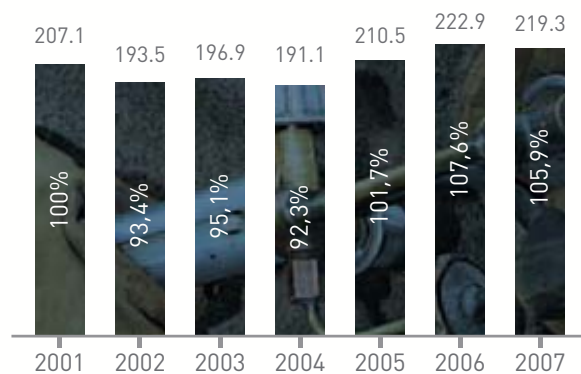
- Improvements in industrial processes resulting in lower consumption of energy;
- Technical upgrades and modernizations;
- Improvements in energy use management systems;
- Compliance with energy conservation laws and regulations;
- Deliberate and unconditional compliance with energy consumption standards;
- Prevention of wasteful energy use;
- Systematic development and implementation of energy conservation measures aimed at reducing energy consumption;
- Cost-center based management of energy use by production units based on analytical data reviews;
- Implementation of energy use checks at Company divisions;
- Recycling of waste energy, reductions in hot-house gas emissions, lower rate of industrial waste generation and accumulation;
- Implementation of information and education activities focusing on efficient use of energy;
- Monitoring and review of energy conservation performance.

In 2007 NLMK implemented a total of 159 energy conservation measures, resulting in RUR 54 million of savings in energy costs (in average annual 2007 prices).

Product energy consumption decreased compared to 2006 in the following major divisions:

Sintering Division (-0.4%), Blast-Furnace Shop No. 1 (-1.3%), Converter Shop No. 1 (-0.2%), Grain-Oriented Steel Division (-4.6%), Cold-Rolled and Coated Steel Division (-5.9%), Non-Grain Oriented Steel Division (-9.9%), Power Generation Plant (-10.8%).

Specific Consumption of Natural Gas, per tonne of crude steel, cu.m/tonne



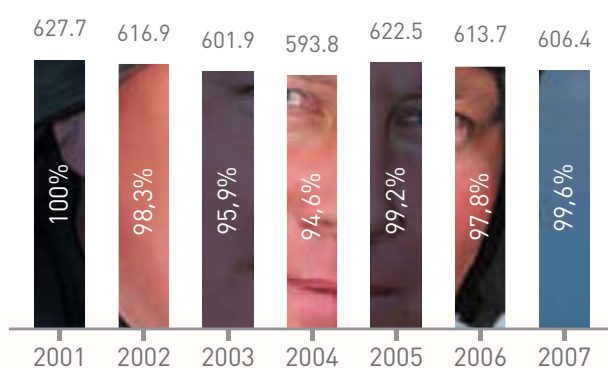
Compared to 2006 — **[-1,6%]**

In 2005 and 2006 NLMK recorded increases in the specific consumption of natural gas per tonne of crude steel produced, mostly due to consumption by blast furnaces and the power plant.

In 2005 the increase was caused by higher consumption by the power plant (up 150%) due to a lower intake of blast-furnace gas as blast-furnace No. 5 was being overhauled and higher consumption of natural gas by blast-furnace No. 6 with lower specific consumption of coke.

In 2006 the increase was due to higher consumption by the power plant (electric power output increased by 44 MW) and Blast-Furnace Shop No. 1 with lower specific consumption of coke.

### Specific Consumption of Electric Power, per tonne of steel produced, kWh/tonne



Compared to 2006 — **[-1,2%]**

At NLMK the specific consumption of natural gas per tonne of crude steel produced declined by 1.6% in 2007 through increased consumption of blast-furnace gas by the power plant and implementation of fuel conservation measures (a total of 25 measures resulting in savings of 10,819 tonnes of fuel equivalent).

In 2007 the majority of NLMK Group's businesses implemented energy conservation measures resulting in lower specific energy consumption of their products.

For example, in 2007 Altai-koks conserved 1.9 million kWh of electricity through energy conservation activities and reduced the specific energy consumption of coke by 4.2% compared to 2006.

Stoilenskiy GOK generated savings of RUR 15.3 million in 2007 through energy conservation measures. The specific energy consumption per tonne of commercial iron ore was reduced by 4%.

Energy conservation measures pursued by VIZ-Stal LLC in 2007 allowed the company to reduce specific consumption of electric power, natural gas and steam on a year-on-year basis by 7%, 21.6% and 8%, respectively.

In 2007 NLMK reduced specific electric power consumption by 1.2% year-on-year through measures to reduce electric power use and a Capital Investments Programme, generating total savings of 34.2 million kWh.

# By 1,2%

In 2007 NLMK reduced specific electric power consumption by 1.2% year-on-year through measures to reduce electric power use and a Capital Investments Programme, generating total savings of 34.2 million kWh.





# 8

## Personnel Policies

A key priority of Company personnel policies is to create a favorable environment for high labour productivity and to manufacture high value-added products by relying on the following:

- Improved procedures for employee recruitment, adaptation and skill development;
- Safe and comfortable operating environments;
- Maintain appropriate levels of employee remuneration and welfare;
- Health improvement programs for employees and their families;
- Enhanced team-spirit at various businesses.

More than half of all NLMK Group employees show high levels of proficiency in their respective professions, making this a major competitive advantage for the Company and creating the opportunity to implement a large-scale technical upgrade and development programme.

A professional team of Company managers and specialists was created through the dedicated efforts of NLMK management over a number of years to recruit, develop and retain talented employees. Some 115 NLMK Group employees hold academic degrees, and 7 hold PhDs.

Four NLMK division managers were winners in the annual Russian Manager of the Year competition in 2007.





# 8.1

## Personnel Policies

# Compensation and Benefits

The Company is consistently and continuously implementing programmes to improve remuneration for its employees. Employee wage growth rates are significantly above inflation, but are tightly linked to increases in output, higher productivity and improvements in the management structure.



Changes in Russian CPI  
and NLMK Group Employee Wages  
in 2001-2007



In improving compensation arrangements the Company aims to develop and apply fair and exact criteria for monetary remuneration which would take into account the contribution of all divisions and every individual employee to the common cause.

The Company labour incentives policy sets no restrictions as to the amount of remuneration and benefits accruing to temporary staff and part-time employees. NLMK Group businesses do not practice discrimination based on sex, age, ethnic background or religious affiliation, nor do they use child labour or forced labour.

The Company safeguards the welfare of its employees by offering benefits packages, which include, among others, the following:

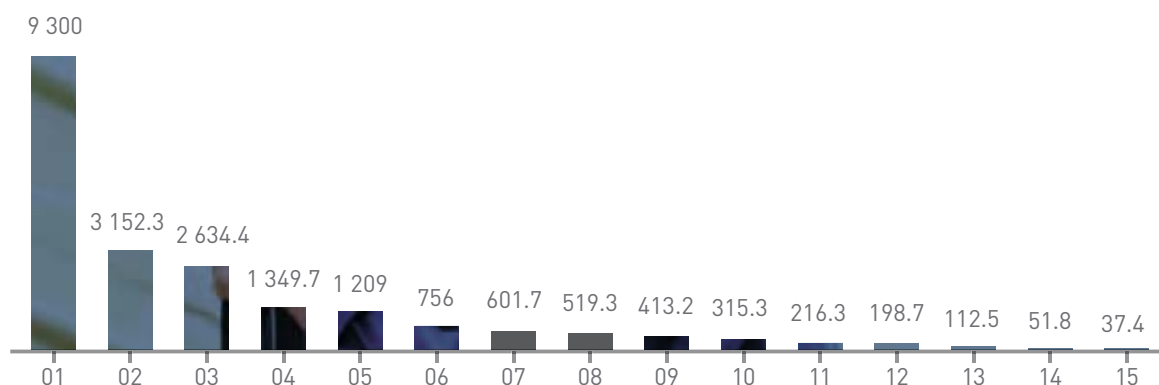
- compensations;
- dismissal pays;
- financial aid;
- compensations envisaged by collective labour agreements.

In addition to wages and bonuses the Company provides fringe benefits, including mandatory and voluntary medical insurance for employees and a private pension plan.

In accordance with applicable laws the employer is responsible for making social security contributions, which are part of the uniform social tax and are paid at the rate of 3.1% of the wage bill. Mandatory medical insurance includes in-patient and out-patient treatment to the extent envisaged under the regional Mandatory Medical Insurance Programmes, excluding sophisticated surgery and expensive diagnostics and therapy procedures.



### VIZ-Stal LLC Benefit Package Spending in 2007 (RUR, thousand)



01. Voluntary medical insurance
02. Retirement benefits
03. Bonuses for special services and incentives
04. Financial aid to employees
05. Financial aid to unemployed retirees (veterans)
06. Monthly benefits payable to former employees
07. Undertaking expenses for deceased employees and retirees, tombstones
08. Trips to resorts for children of employees
09. Sports and cultural events
10. Extra leave benefits
11. Tickets (gifts) for New Year's Eve festivities
12. Financial aid to young families
13. Financial aid to families, widows and widowers, single parents, guardians
14. Pre-school facility benefits
15. Other benefits

In addition NLMK also provides voluntary medical insurance for its employees, allowing them access to:

- in-patient and out-patient medical services (including medical consultations);
- first aid treatment at on-site medical stations;
- preventive medical examinations;
- dental prosthetic services;
- treatment at health improvement resort facilities;
- advanced medical assistance at specialized clinics for complicated medical conditions.

The Company is actively pursuing a private pension benefit program. NLMK is a founder of the Sotsialnoe Razvitie Private Pension Fund.

The Sotsialnoe Razvitie Private Pension Fund is among the top 25 (out of a total of 263) most successfully developing private pension funds in Russia and the largest in the Central Black Earth region of Russia.

As of January 1, 2008 the pension fund had 27,370 contributors and participants, all of them Company employees.

In 2007 contributions by NLMK Group businesses to the Sotsialnoe Razvitie Private Pension Fund made on behalf of their employees amounted to around RUR 95 million.

For the reported period the pension fund's rate of return on its pension reserves was 10.18% per annum, payable to the retirement accounts of its participants.

Pension reserves stood at RUR 1,690 million as of January 1, 2008.

# 8.2

## Personnel Policies

# Social Partnership

Together with the trade unions the Company is building a social partnership framework serving as a basis for mutual benefit and cooperation.

Labour law provisions and additional benefits and other benefits for employees are stipulated in the collective labour agreements effective at all businesses of the Group.

More than 40 thousand employees of NLMK Group businesses are unionized.

Compliance with commitments under collective labour agreements is monitored by joint commissions representing both the administration and trade unions. A continuous dialogue helps reach understandings on wages and streamlining the management structure, ensure safe and healthy working environment, and the introduction of benefits which improve the welfare of employees.

In 2007 all the commitments under the collective agreements in effect at NLMK Group businesses were mostly fulfilled.

In 2007 NLMK won the Collective Agreement and Production Efficiency as the Basis for Social and Labour Rights of Protection competition between businesses and organizations of Lipetsk Region.



# Professional Training and Development

The Company treats professional skill and expertise development for its employees as a strategic investment. Major areas for personnel training include:

- adaptation coaching and basic professional training programmes;
- training to acquire additional (related) skills;
- skill improvement across all areas of professional expertise;
- training for management reserve;
- training for top managers.

The implementation of Phase 2 of the Technical Upgrade Programme required timely staffing of new and upgraded production facilities with skilled personnel.

For these purposes the Company designed a personnel training programme for NLMK up to 2011.

In 2007 NLMK trained 295 employees to operate the new facilities. Fifteen employees completed on-site training at Duferco Group businesses.

About 90% of employees are trained at in-house training facilities, allowing them to benefit from the wealth of knowledge accumulated by the Company and providing for a more effective training process. Highly qualified managers and specialists as well as professors from leading Russian educational institutions are invited to teach the employees.

Adaptation and coaching programmes are in place for new joiners. Coaches will train younger employees and share their professional experience, introduce them to corporate regulations and culture, and promote a positive attitude to nature, scope and mode of their work.

Management reserve development programmes are in place at all NLMK Group businesses; these focus on ensuring succession and preparing existing personnel for promotion to fill vacant managerial and specialist positions. Management reserve development activities include the following:

- training for newly appointed managers and specialists;
- pre-appointment coaching for new jobs;
- obtaining clearances and permits to operate hazardous facilities;
- helping develop managerial competencies.

Annual professional performance reviews focus on identifying and encouraging the most effective and talented Company managers and specialists. Based on the findings of the reviews the better performing employees may be offered financial rewards or other incentives, professional development and career advancement opportunities. Individual development plans are designed for those employees, who require additional training to improve their knowledge and skills.

In 2007 a total of 5,453 NLMK employees completed professional training, including:

Managers – 2,767 (50.8%);

Specialists – 2,602 (47.7%);

Office staff - 84 (1.5%).

Based on professional performance reviews, 708 employees were classified at highest (first) competency levels and received additional bonuses.

# 8.4

## Personnel Policies

# Employee Health Improvement

All NLMK Group businesses operate programmes to provide their employees and their families with health improvement and health resort treatment and care. Employees working in harmful and hazardous environments are eligible for medical and preventive care on a priority basis.

Every year NLMK Group employees enjoy opportunities to restore their health at Company-owned health resorts and preventive treatment facilities throughout the Russian Federation.

In 2007 Stoilenskiy GOK spent around RUR 15 million to fund medical care as part of its voluntary medical insurance plan. High-quality medical care was provided to almost 600 employees. Employees operating in harmful and hazardous environments are eligible for treatment at health resort facilities at the company's expense. The company spent about RUR 4 million for these purposes.

The medical unit at Altai-koks comprises an outpatient department with a capacity of 300 appointments per shift, the Bodrost preventive treatment clinic with a capacity of 105 beds, and three on-site medical stations. The Company's medical unit is one of the largest and best equipped in the region. The outpatient department and diagnostics laboratory have modern medical equipment and a staff of 28 doctors, four of which are category A and nine are category 1 medical staff, and 65 nursing staff. In 2007 Altai-koks spent RUR 1.3 million for equipment of the medical unit.

During the summer school break the Company arranges vacation opportunities for its employees' children.

In 2007 Stoilenskiy GOK spent more than RUR 10 million on vacation activities for children, accommodating 500 children of its employees at the Smena summer camp in Anapa and the Prometheus health care camp in Lipetsk Region.

The Prometheus health care camp is one of Russia's largest health improvement facilities for children. It is located in a wooded area on the bank of the Voronezh River. It has become one of the country's best all-year health improvement camps for children. An area of 40

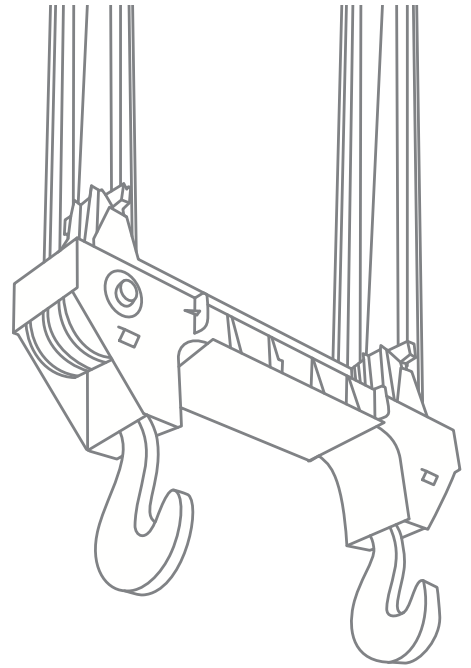
hectares contains 12 housing blocks, 2 schools, a range of treatment and recreation facilities, sports facilities and canteens. Annually around 10 thousand children are accepted by the facility, most of whom are children of the Company employees.

In 2007 Altai-koks spent about RUR 7 million on funding for the summer vacations for its employees' children. Sixty children stayed at the Sun-Shine international linguistics center located 8 kilometers from the Aya Lake in Gorny Altai region. During their stay and in addition to recreational activities the children study English and communicate with scout-leaders from the USA. Another 300 kids completed health improvement courses at the Bodrost sanatorium and another 300 stayed at the Lesnaya Dal recreation facility owned by the Company. Altai-koks covers between 85% and 90% of the cost of the voucher and provides transportation for children to the camp at company expense.

The Company helps prevent disease by encouraging physical fitness and sports activities. All the production divisions of NLMK Group businesses maintain gyms and rehabilitation centers, where the employees can recuperate at the end of their shift. The recuperation centers are equipped with fitness rooms, saunas, pools and whirlpool facilities.

The Company promotes sports through corporate sports events, intra-company football, volleyball, basketball, swimming, chess, table tennis championships and tournaments, as well as cross-country skiing and track and field relays.

Mr. Viktor Sivkov, a heat-treatment operator at the cold-rolling shop at VIZ-Stal and a distinguished athlete, won numerous titles at municipal and national competitions, and participated in 18 international events, winning top titles in three and other prizes in nine of these. In 2007 he won a bronze medal in Italy.



# Occupational

## Health and Safety

The Company operates hazardous production facilities and is responsible for the lives and health of its employees. Its incumbent occupational health and safety management system is built in compliance with international standards.

In 2007 NLMK successfully passed its first certification audit for compliance with the requirements of OHSAS 18001:2007 Safety and Health Management Systems international standard.

The audit was done by the Bureau Veritas Certification agency and confirmed that the Company's management systems are compliant with international standards.

The Company continues to improve its OHS performance by enhancing the safety of its production processes, motivating personnel and encouraging employees to comply with OHS regulations.

The Company OHS policy covers the following areas:

- application of uniform standards for OHS management activities;
- regular monitoring of OHS arrangements at Company divisions for compliance with statutory Federal and local requirements;
- conduct of proper medical examinations and reviews of employee health and improvements in their quality;
- preventative actions to reduce the incidence of occupational diseases;
- regular reviews of workplaces for compliance with working environment requirements;
- material, organisational, technology and methodology equipment support for the corporate OHS system, provision of employees with quality personal and collective protective equipment, medicines and other preventatives;
- training and skill improvement for OHS specialists, training of workers to employ safe modes and methods of operation, OHS briefings, pro-active OHS promotion;

- increased personnel motivation for strict compliance with OHS requirements, improved standards of operation and stronger labour discipline;
- informing personnel about the state of Company OHS arrangements.

The employer's commitments to provide a safe and healthy working environment are stipulated by the occupational health and safety clauses in the collective labour agreements of all NLMK Group businesses. Pursuant to these collective agreement clauses the employees are provided on a timely basis and free of charge with high quality and certified work wear and footwear, personal protective equipment and personal hygiene products, and are subject to periodic medical examinations. Certain categories of personnel are also provided with milk, tea and carbonated water.

The Technical Upgrade Programme involves large-scale efforts to decommission obsolete and install modern equipment, which is compliant with international occupational safety requirements.

These measures allowed for significant improvements in conditions and helped mitigate the effects of harmful and hazardous production factors.

NLMK Group businesses employ occupational safety commissions, representing both the trade unions and Company administration, to pursue the following:

- review workplace operating environments;
- ensure provision of work wear, footwear and personal protective equipment to employees;
- prevent job-related injuries and occupational disease;
- certify workplaces for compliance with operating environment requirements, and participate in inquiries into industrial incidents.

Personnel training in the safe operation of hazardous facilities - industrial and occupational hygiene is an integral element of the Company's OHS activities.



## Occupational Health and Safety

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All NLMK Group businesses on a mandatory basis provide OHS briefings and reviews of personnel for compliance with safe operation standards.

Total OHS spending in 2007 amounted to RUR 360 million.

After implementing a total of 42 measures in 2007, NLMK improved working conditions for 390 employees including 178 women. Annually the bulk of this funding is spent on providing employees with modern work clothes and footwear, personal protective equipment and preventive nutrition, milk and tea.

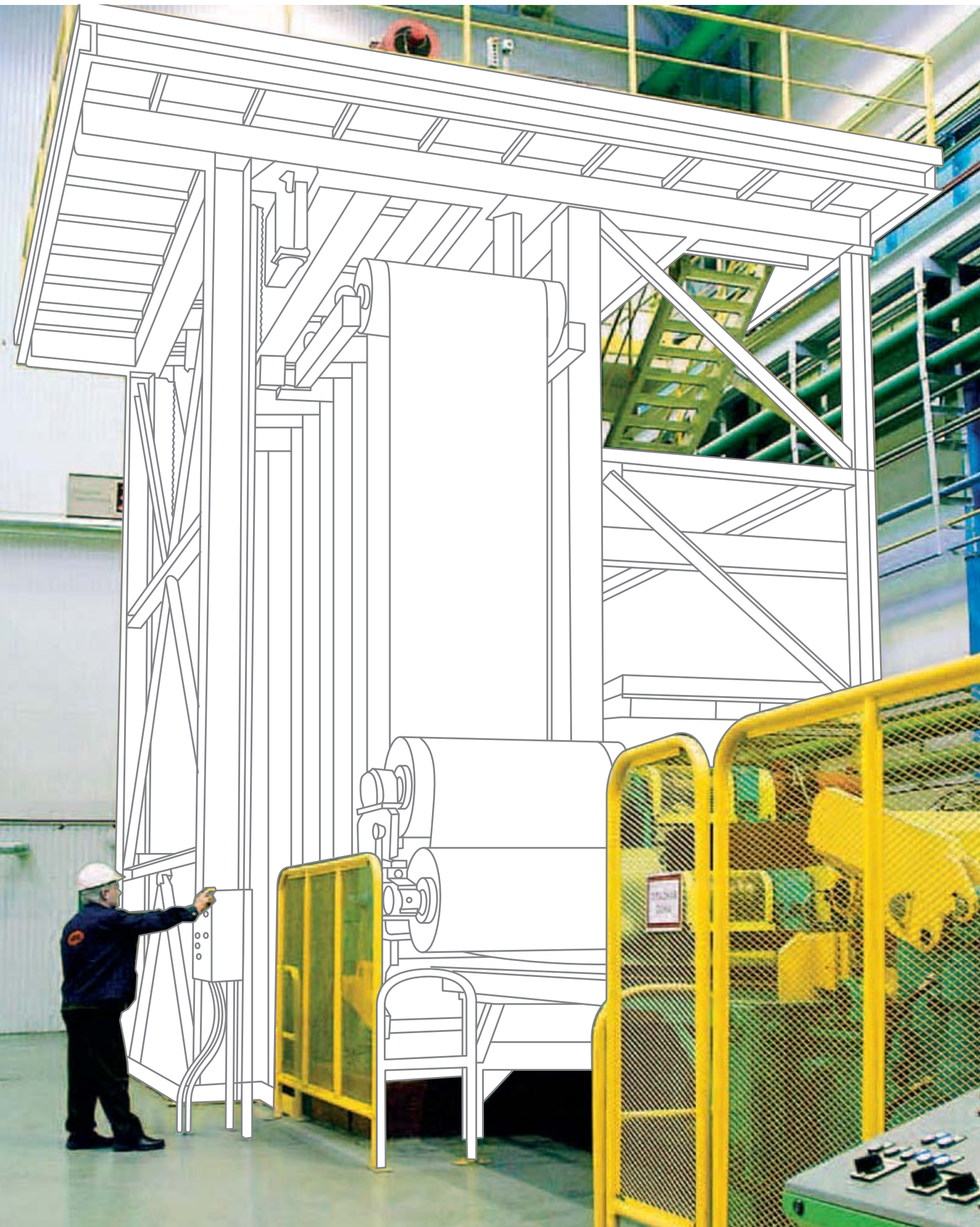
In 2007 Altai-koks spent about RUR 26 million to implement 90 OHS measures (27% more than in 2006).

Among others, this included the installation of air conditioners in the cabs of coke battery machine operators and exhaust ventilation for the permanent welding station. During the year high performance exhaust units were installed at the vehicle shop and technology automation shop; other measures were also implemented.

All of the above helped improve working conditions for 926 employees, including 163 women.

Occupational injury rates for NLMK Group businesses are shown in Appendix 2.





# 9

## Product Responsibility

As major global producer of steel and rolled ferrous products, the NLMK Group recognizes its important role in domestic sustainable development processes.

The Company believes that an effective steel and steel products business must be built on the continuous improvement in quality management and manufacture quality products which fully meet customer expectations and requirements.

Customer confidence is the foundation for stable Company operations in a market economy.

# 9.1

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## Product Responsibility

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# Product Quality Assurance

The most obvious proof of reliable control over quality assurance and production processes and their compliance with customer requirements is that the Company holds a certificate of conformity to international standards applicable to its Quality Management System.

The NLMK quality management framework complies with the ISO 9000:2000 Quality management systems – Requirements and ISO/TS 16949:2002 Quality management systems – Particular requirements for the application of ISO 9001:2000 for automotive production and relevant service part organizations international standards.

Good technology, the organization of production processes and the quality of NLMK's products are confirmed by prominent Russian and foreign certification authorities, including TÜV CERT (Germany), Lloyd's Register (UK), American Bureau of Shipping (ABS), Sweden), Det Norske Veritas (Norway), Bureau Veritas (France), Germanischer Lloyd (Germany), Registro Italiano Navale (RINA), Russian Maritime Registry of Shipping, the Rosstroy Federal Construction Products Technical Qualification Center, etc.

The Company is open to direct audits by its customers.

In April 2007 NLMK was visited by auditors from General Electric to review the operations of the quality management and environmental management systems. During the review the auditors visited the Hot-Rolling Division and Cold-Rolling and Coating Division facilities.

The auditors found the current NLMK quality management and environmental management systems to be operating soundly and conforming to international standards and European market requirements. The Company was awarded with a score of 86 out of 100 (a score of 80 and above implies a positive supplier).

In February 2007 VIZ-Stal successfully confirmed that its Quality Management System complies with the ISO 9001:2000 international standards during an audit by Asea Brown Boveri (ABB), a world-class customer.

In August VIZ-Stal successfully confirmed compliance with the Quality Management System ISO 9001:2000 international standard and the requirements of corporate TUN standards during an audit by Siemens GmbH, a world-class transnational customer for VIZ-Stal products.

Other NLMK Group businesses are also introducing quality management systems.

In 2007 the Altai-koks quality management system was certified for compliance with the ISO 9001 international standard for the manufacture of coke and chemical by-products. As was identified during an audit by representatives of the TÜV CERT (Germany) certification authority, Altai-koks was the first business in the Altai Region to complete certification for compliance with the ISO 9001 standard, confirming the businesses achievements in quality managements.

The Stoilenskiy GOK integrated quality assurance and environmental management system conforms to ISO 9001:2000 and ISO 14001:2004 standards. This was confirmed in 2007 in the course of an audit by the Det Norske Veritas certification authority.



# Customer Satisfaction

The NLMK Group looks forward to long-term cooperation with its customers, expanding its markets and identifying new customers for its products.

The company engages its customers through conferences, forums and meetings.

In May 2007 Lipetsk hosted the NLMK Group: Achievements, Prospects and Opportunities conference with the participation of the Russian Association of Metalproducts Suppliers and some 40 metal traders and processing companies from 21 regions of the country.

The discussion focused on the development of flat rolled product processing based on case studies from NLMK Group business partners. This also included discussion of capabilities of Russian service centers, features of pre-fabricated light steel structures for engineering, and the prospects for the coated steel products market.

A presentation of the NLMK Group businesses introduced the business community to the Company's plans for technology development, marketing outreach expansion and the strengthening of cooperation with customers.

The Company implements its principles of meeting all customer expectations and requirements by accumulating in its sales division complete information about timeliness of deliveries, customer feedback about product quality and processing results.

Information is collected from the following sources:

- Customer satisfaction polls and questionnaires;
- Findings of Coordination councils and records of meetings with customers;
- Findings of Company employees from their visits of customers;
- Customer comments, complaints, queries and claims received by various divisions;
- Feedback from sectoral conferences and exhibitions;
- Publications about the Company in the media.

Collected information is reviewed by the Company to implement measures to improve the quality of its products.

Production divisions of the Company have refurbished their technology, commissioned new units and mastered new methods for manufacturing strip. This helped reduce and in many cases prevent flaws in hot-rolled and cold-rolled products.

In 2007 the average customer satisfaction rating of Company operations was 8.4 on a scale of 10 points, implying a satisfactory rating, while top scores were received for quality of rolled products.

Average customer satisfaction ratings across a number of indicators are shown in the table below:

Customer Satisfaction Ratings	2005	2006	2007
Product Quality	8.4	8.2	8.5
Timeliness of Deliveries	7.7	7.9	8.4
Integrated Customer Satisfaction Rating	8.2	8.1	8.4

The Company will continue to engage its customers, improve the feedback communication system and promptly respond to changes in market requirements.





# 10

## Progress Against 2007 Objectives

### Objective

#### Corporate Responsibility Reporting Development

Improve Social Report preparation procedures. Expand the report's coverage including information on subsidiaries in subsequent reports to provide the most complete information about the Company's activity to the stakeholders for the reporting period.

Facilitate communication of the Social Report to the maximum possible number of stakeholders.

#### Increase Employee Motivation

Ongoing improvement of staff motivation and growth of average salary of NLMK employees outstripping inflation rates provided labour efficiency increases.

Comply with additional requirements of the Industrial Tariff Agreement on social welfare of NLMK's employees.

### Progress

The NLMK Social Responsibility Report for 2007 includes information covering major NLMK Group subsidiaries, namely Altai-koks, Stoilenskiy GOK and VIZ-Stal. A Product Responsibility section was added to the Report.

The hard copy of the 2006 Report was circulated to stakeholders and an electronic copy was published on the official NLMK website.

In 2007 average employee wages at NLMK and NLMK Group businesses increased by 40.7% and 33.6%, respectively.

The corporate Guidelines for Rating the Performance of Managers, Specialists and Office Staff Employed by NLMK Divisions was revised in order to increase employee accountability for their performance.

The collective agreement was revised and restated to incorporate clauses for the implementation of the Metals and Mining Sector Tariff Agreement.

The NLMK collective agreement obligations were largely fulfilled.

**Objective****Progress****Learning and Development**

Improve the quality of professional training of personnel who will work on new equipment by arranging secondment to foreign enterprises.

A Personnel Training Programme was developed for implementation during Phase 2 of the NLMK technical upgrade programme. Four groups of employees were seconded for training to various production divisions of the Duferco Group joint venture.

Improve the training system for management reserve by implementing new forms and methods of education including secondment to foreign enterprises.

Ten training courses for 166 representatives of management reserve were held in major shop units. Nine management reserve members were seconded for training to various production divisions of the Duferco Group joint venture.

Develop the system of additional professional training for students of specialised educational institutions.

The number of programme participants was increased. The size of regular allowances was increased and a lump-sum allowance of RUR 5,000 once a semester was introduced for best performing students.

Implement a distance learning system.

A new Using Access Database (For Professionals) training guide for distance learning was developed and implemented.

Create a knowledge management system in the Company.

In 2007 the Company launched its Corporate Knowledge Base, which comprised over 1,100 documents by year end.

**Career Guidance and Support of Education**

Take part in the "Education" priority national project to support institutions of primary and secondary education that are implementing innovative educational programmes.

NLMK provided support to the Lipetsk Vocational Training School No. 10, helping it in 2007 to become a winner in the Education Priority National Project.

Within the "Professional personnel in metallurgy" innovation educational programme, allocate RUR28.6 million to vocational school No. 10 to purchase educational and laboratory equipment.

The Company donated RUR 28.6 million to the Lipetsk Vocational Training School No. 10 for procurement of teaching and laboratory aids.

Allocate around RUR20 million to vocational school No. 10 for capital repairs.

The Company donated some RUR 36 million to the Lipetsk Vocational Training School No. 10 for capital repairs.

Delegate highly qualified NLMK retired employees to read lectures at vocational school No. 10.

Skilled NLMK employees were employed at Vocational Training School No. 10 in 2007.

## Progress Against 2007 Objectives

### Objective

### Progress

Pay monthly scholarship to students of vocational school No. 10.

Depending on academic performance, monthly allowances are between 500 and 1,000 rubles.

Continue targeted career guidance for schoolchildren in the City of Lipetsk and Lipetsk Region.

Career guidance events organized by NLMK welcomed over 5 thousand students from local educational institutions.

#### Occupational Health and Safety

Implement measures on occupational health and safety and improve the working environment, industrial sanitary, sanitary services for the Company's employees, allocating funds amounting to 0.2% of the cost of production.

In 2007 NLMK spent a total of RUR 216 million on OHS activities (RUR 6.19 thousand per employee). RUR 32 million was spent on standard measures to improve working conditions.

Implement measures to prevent occupational injuries.

NLMK divisions developed and implemented programmes to prevent occupational injuries designed to reduce the frequency of injuries.

#### Corporate Culture

Arrange traditional corporate events, competitions and sports events to enhance corporate culture.

In 2007 corporate events were held as scheduled.

Recommend distinguished NLMK's employees for state, industrial and corporate awards.

In 2007 top performing NLMK employees received state, sectoral, regional and municipal awards and corporate decorations.

Complete the reconstruction of the NLMK museum.

Reconstruction of the NLMK Museum was completed in 2007.

#### Social Programmes

Build not less than 35 000 m<sup>2</sup> of housing for NLMK's employees.

In 2007 NLMK commissioned 7 multi-storey housing buildings with 565 apartments and 52 thousand sq. m of living space.

Sell not less than half of housing built by NLMK to employees aged under 30.

Of the 565 apartments commissioned by NLMK in 2007, a total of 280 apartments were offered to employees below the age of 30 years.

Increase to 50 the number of flats allocated to young employees, as part of the Housing for Young Steelworkers programme, with 15 year mortgage.

Fifty young employees acquired apartments under the Housing for Young Steelworkers Programme with 15-year mortgage plans.

## Objective

Establish a sports and health centre in Park Metallurgov.

Take part in the Bringing Joy to Children local charity programmes by transferring funds to the City of Lipetsk and Lipetsk Region orphanages.

Arrange free meals for underprivileged residents of the City of Lipetsk.

Assist the staging of celebrations of the Victory in the Great Patriotic War, to councils of veterans in the City of Lipetsk, municipal veteran organisations of disabled people, "Russian union of veterans of the war in Afghanistan" regional organisation, committee for war and labour veterans, Union of soldiers' mothers, by allocating about RUR25 million for these purposes.

Allocate about RUR2.3 million via charity foundation Miloserdie (Mercy) to aid children's preschool institutions in the City of Lipetsk.

Allocate funds via Miloserdie (Mercy) charity foundation to support general educational institutions, arts schools and technical creativity centers for children in the City of Lipetsk.

## Environmental Protection

Improve the ecological situation in Lipetsk by implementing 100 nature protection measures, increasing financing more than by 20% compared to 2006.

Plant about 30,000 trees and bushes, lay out more than 8 hectares of new lawn and flowerbeds, reclaim and improve 9 hectares of land previously used for industrial waste storage.

## Progress

Phase 1 was completed at the end of 2007; major buildings and structures already in place.

Donations from the Miloserdie Charity Foundation were deposited in the bank accounts of 6 orphanages in Lipetsk and Lipetsk Region for acquisition of clothes and sports equipment.

NLMK arranged 50 free meals daily for underprivileged Lipetsk residents.

In 2007 NLMK donated some RUR 25 million to support festivities and celebrations in commemoration of WWII Victory Day.

Financial support was also provided to Company employees who fought in the war, former prisoners of Nazi concentration camps, residents of Leningrad during the blockade, widows of soldiers and war-time defense sector employees.

In 2007 the Company donated some RUR 6 million for maintenance and repair work at pre-school institutions and to support secondary schools, art schools and children's creative learning studios in Lipetsk.

In 2007 NLMK implemented more than 100 nature conservation measures designed to improve the natural environment in Lipetsk.

In 2007 over RUR 33 million was spent to implement the programme for improvement and landscape development of the NLMK industrial site. All scheduled activities were completed in full.

## Progress Against 2007 Objectives

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### Objective

Industrial Safety

Pass a certification audit for compliance with OHSAS 18001 standard carried out by Bureau Veritas Certification international certification agency.

### Progress

In November 2007 NLMK obtained an OHSAS 18001 international standard compliance certificate.







# 11

## Objectives for 2008

### Social Responsibility Reporting

Improve social responsibility reporting in line with best international practice.  
Expand the scope and boundary of corporate responsibility reports by extending coverage over a larger number of subsidiaries.

### Corporate Governance

Launch project to introduce an enterprise resource planning (ERP) system for NLMK.  
Implement project to improve Company risk management system.  
Improve stakeholder engagement.  
Implement measures to increase labour efficiency.

### Personnel Policies

Improve system of financial and moral incentives for Company employees.  
Develop personnel engagement procedures at subsidiaries and align them with uniform corporate standards.  
Continue with the practice of collective agreements at NLMK Group businesses.  
Ensure compliance with all commitments under such collective agreements.

### Social Policies

Implement programmes targeting social and economic development of regions where the Company is present.  
Continue with the employee housing improvement programme.

### Environmental Protection

NLMK successfully completed supervisory audits of its quality management system  
Implement nature conservation measures scheduled for 2008 within the framework of Phase 2 of the Technical Upgrade Programme.

### Occupational Health

Implement measures designed to create a healthy and safe working environment for Company employees.

### Customer Satisfaction

Respond to all customer requirements and expectations by improving the feedback communication system.  
Expand markets, find new customers.

# 12

## Appendix 1. Company Operations: 5-Year Highlights

Description	2003	2004	2005	2006	2007
1.1. Key Production Indicators (in thousand tonnes)*					
Steel	8 854	9 123	8 468	9 125	9 177
Commercial Slabs	3 338	3 763	3 203	3 463	3 153
Flats	4 895	4 813	4 776	5 117	5 341
Coated Steel	543	528	532	769	819
Electrical Steel	395	514	472	568	723
Long Products and Metalware	-	-	-	-	84
1.2. Key US GAAP Financials (in million US dollars)					
Sales Revenue	2 468	4 460	4 376	6 046	7 719
Gross Profit	1 017	2 380	2 044	2 971	3 742
Operating Profit	882	2 197	1 844	2 243	2 998
Profit Before Tax and Minorities	882	2 338	1 892	2 621	3 157
Net Profit	656	1 773	1 381	2 066	2 247
EBITDA	1 007	2 379	2 083	2 631	3 366

Description	2003	2004	2005	2006	2007
1.3. Key US GAAP Financials (in million US dollars)					
Total Assets	3 085	5 166	6 211	8 717	13 076
Equity	2 610	4 220	5 114	6 809	8 992
Equity-to-Assets Ratio (in per cent)	85%	82%	82%	78%	69%
Current Liquidity Ratio	5,9	4,8	5,6	3,1	1,5
Quick Assets Ratio	4,8	3,9	4,7	2,2	1,0
Receivables Turnover (days)	48	40	54	56	67
Inventory Turnover (days)	72	77	92	95	107
1.4. Profitability Indicators Based on US GAAP Statements					
Operating Profit Margin	36%	49%	42%	37%	39%
Net Profit Margin	27%	40%	32%	34%	29%
EBITDA Margin	41%	53%	48%	44%	44%
Return on Assets	25%	43%	24%	28%	21%
Return on Equity	29%	52%	30%	35%	28%
EBITDA to Assets	38%	58%	37%	35%	31%
Earnings per Share (USD)	0,1095	0,2958	0,2305	0,3447	0,3750
1.5. Company Taxation (cash, RUR, thousand)**					
Federal Taxes (incl. Customs Duties)	2 697 962	4 471 903	4 288 581	6 642 377	5 430 879
Lipetsk Region Consolidated Fiscal Budget, of which:	6 752 186	12 828 333	10 495 612	13 636 201	11 087 406
Regional Taxes	4 608 384***	9 544 090	9 114 778	12 441 441	9 827 728
Local Taxes	2 143 802	3 284 243	1 380 834	1 194 760	1 259 678
Extra-Budgetary Funds	636 329	717 924	862 259	1 097 029	1 407 531

\*Data for NLMK Group.

\*\*Data for NLMK, Lipetsk.

\*\*\*Includes local road fund.

# 13

## Appendix 2. Company Personnel Profile in 2007

Description	NLMK	Altai-koks	VIZ-Stal	Stoilenskiy GOK
<b>Number of employees and salary</b>				
Average Headcount (persons)	34 895	5 460	2 301	6 176
of which:				
Managers	3 317	407	238	581
Specialists	3 750	706	232	577
Office Staff	417	34	16	46
Workers	27 411	4 313	1 814	4 972
by Sex, %				
Men	67,9	67,7	66,7	76,3
Women	32,1	32,3	33,3	23,7
by Age, %				
below 30	20,7	23,2	17,3	18,9
30-50	52,5	54,8	40,2	56,6
above 50	26,8	22,0	42,5	24,5
by Employment, %				
Full-Time	98,8	98,2	99,3	95,9
Temporary	1,16	1,8	0,5	4,1
Part-Time	0,04	0,3	0,2	0

## Appendix 2

Description	NLMK	Altai-koks	VIZ-Stal	Stoilenskiy GOK
Average Wage, RUR	21 034	14 804	20 277	18 445
Personnel Turnover Rate, %				
Overall	8,3	8,4	11,4	6,2
Below 30 Years of Age	18,7	2,1	28,0	12,8
<b>OHS Indicators</b>				
Fatal Accidents	3	-	-	-
Incident Frequency Rate*	1,0	2,6	1,7	1,1
Incident Gravity Rate **	45,7	58,3	35,8	123,4
Disability Lost Days	1 646	816	143	987
<b>Personnel Training Indicators</b>				
Average Training Hours per Employee				
Workers	183	192,2	74,1	127,7
Managers, Specialists, Office Staff	38	20,8	48,0	35,6

Note: sex, age and type of employment based on December 31, 2007 data.

\* Accident frequency rate: the number of incidents per 1000 employees.

\*\* Accident gravity rate: the number of disability days on average per incident.



# 14

## Appendix 3. GRI Content Index

No.	Standard disclosures and indicators of GRI Guidelines	Section of Report	Page
<b>1.</b>	<b>Strategy and Analysis</b>		
1.1.	Statement about the relevance of sustainability to the organization and its strategy	Message from the President	7
		Mission and Corporate Social Responsibility Strategy	9
1.2.	Description of key impacts, risks, and opportunities	Risk Management	18
		Local Community Development	29
		Environmental Footprint	35
<b>2.</b>	<b>Organizational Profile</b>		
2.1.	Name of the organization	Scope of the Report	8
2.2.	Primary brands, products, and/or services	Company Profile	11
2.3.	Operational structure of the organization	Company Profile	11
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2.5.	Number of countries where the organization operates	Group Structure	12
2.6.	Nature of ownership and legal form.	Corporate Governance	16
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3.3.	Reporting cycle	Scope of the Report	8
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	Report Scope and Boundary		
3.5.	Process for defining report content	Scope of the Report	8
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<b>4.</b>	<b>Governance, Commitments, and Stakeholders Engagement</b>		
	Governance		
4.1.	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Company Profile	11
4.2.	Indicate whether the Chair of the highest governance body is also an executive officer	Company Profile	11
4.3.	Number of members of the highest governance body that are independent and/or non-executive members	Company Profile	11
4.4.	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Company Profile Stakeholder Engagement	11 23
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4.8.	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Mission and Corporate Social Responsibility Strategy Company Profile Local Community Development Personnel Policies Environmental Footprint	9 11 29 45 35
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	Stakeholder Engagement		
4.14.	List of stakeholder groups engaged by the organization.	Stakeholder Engagement	23
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		Stakeholder Engagement	23
4.16.	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Stakeholder Engagement	23
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EN2	Percentage of materials used that are recycled input materials.	Environmental Footprint	35
EN3	Direct energy consumption by primary energy source.	Environmental Footprint	35
EN5	Energy saved due to conservation and efficiency improvements.	Environmental Footprint	35
EN8	Total water withdrawal by source.	Environmental Footprint	35
EN13	Habitats protected or restored.	Progress Against 2007 Objectives	59
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Environmental Footprint	35
EN16	Total direct and indirect greenhouse gas emissions by weight.	Environmental Footprint	35
EN20	NOx, SOx and other significant air emissions by type and weight.	Environmental Footprint	35
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EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Environmental Footprint	35
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	Environmental Footprint	35
EN30	Total environmental protection expenditures and investments by type.	Environmental Footprint	35
	Labor Practices and Decent Work Performance Indicators		
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LA2	Total number and rate of employee turnover by age group, gender, and region.	Appendix 2. Personnel Profile	68
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Personnel Policies	45
LA4	Percentage of employees covered by collective bargaining agreements.	Personnel Policies	45

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LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	Appendix 2. Personnel Profile	68
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Personnel Policies	45
LA9	Health and safety topics covered in formal agreements with trade unions.	Personnel Policies	45
LA10	Average hours of training per year per employee by employee category.	Appendix 2. Personnel Profile	68
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Personnel Policies	45
LA12	Percentage of employees receiving regular performance and career development reviews.	Personnel Policies	45
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Human Rights Performance Indicators			
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Personnel Policies	45
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	Personnel Policies	45
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PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Product Responsibility	55
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Product Responsibility	55
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Product Responsibility	55

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## Feedback Form

You have just reviewed the NLMK Corporate Responsibility Report for 2007.

We would like to know your views about the format and substance of the Report, and we look forward to relying on your comments and suggestions as we draft our future reports.

1. Did you find the information you were looking for or expected to see in the Report?

☐

Yes

☐

No

☐

I was not looking for anything in particular

2. What section of the Report was of greatest interest to you?

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3. How do you rate the reliability of information provided in the Report?

☐

Yes, the information is reliable

☐

I am not sure that the information is reliable

☐

No, the information is not reliable

If your answer is 'No' or you are not sure, please, specify what information you disagree with or find doubtful?

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4. Do you find the Report to be thoroughly detailed?

☐

Yes, it is

☐

No, it isn't



5. Share your opinion about the scope and format of the Report.

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6. What information of interest to you is missing in the Report and what would you like to see in subsequent Reports produced by the Company?

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7. What is your relationship with the Company?

- ☐ Shareholder
- ☐ Potential Investor
- ☐ Supplier
- ☐ Customer
- ☐ Representative of supervising/regulatory authorities
- ☐ Local government official
- ☐ Federal Government official
- ☐ Representative of a civil society organisation
- ☐ Representative of mass media
- ☐ Employee of the Company
- ☐ Researcher/post-graduate student/student
- ☐ Other (please specify) \_\_\_\_\_

Thank you!

