

# Corporate social responsibility



## The Environment

### Yuri Larin

Vice President, Technology and Environment

Mr. Larin was Director of Engineering Centre NLMK (1999-2006) and from 1996 to 1999 he worked as Deputy Director of Central Lab of NLMK and was responsible for technology. He graduated from Voronezh Polytechnic Institute. Ph.D in Technical Sciences.

**A key priority for the NLMK Group's activities is the mitigation of the negative impact that operations may have on the environment. The Group follows an environmental policy which links key points between its business strategy, environmental guidelines and Company objectives.**

#### Business strategy for the environment:

- Gain recognition as a leading steel Company committed to preserving the environment;
- Rigorous compliance with environmental quality standards and statutory requirements;
- Modernisation and upgrading of technology employed by core and auxiliary production operations;
- Implement and improve systemic business management methods, including the ISO 14000 standards;
- Due consideration of public opinion in decisions regarding the development and expansion of operations.

#### Environmental Guidelines:

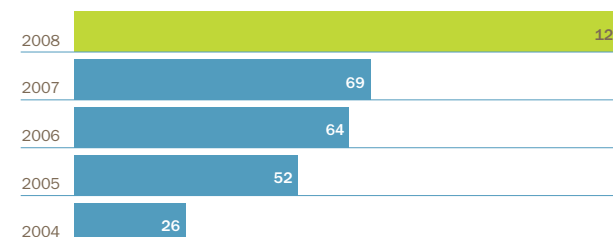
- Corporate accountability to the public for the state of the environment;
- Compliance with environmental protection laws and regulations;
- Reliance on best available technology when installing and upgrading facilities, de-commissioning of old and obsolete facilities;
- Improvements in production processes, environmental protection equipment and methods in order to limit the negative impact on the environment;
- Rational use of natural resources;
- Development and implementation of waste recycling solutions.

#### Environmental objectives:

- Maintain statutory environmental quality standards;
- Achieve resource conservation in production activities in line with world practices;
- Implement low-waste processes (technology) and effective waste recycling methods.

One key element of the Technical Upgrade Programme is improving the environmental performance of operations. This will help achieve strategic objectives by eliminating potential environmental risks.

#### NLMK ENVIRONMENTAL INVESTMENTS, 2004-2008 (USD MILLION)



## Corporate social responsibility continued

### NLMK GROUP ATMOSPHERIC EMISSIONS, 2004–2008 (‘000 TONNES)



### NLMK WATER BODY IMPACT, 2004–2008



● RIVER WATER USE (m³) ● EMISSIONS TO WATER ('000 TONNES)

Note: Main production site in Lipetsk.

Consistent with its approved strategy, Group businesses are consistently implementing environmental management systems in line with best international practice. In addition to the parent Company and Stoilensky GOK, which already comply with international standards, management systems compliant with ISO 14001:2004 are being introduced at Altai-koks and DanSteel A/S.

In 2008 some USD129 million was spent on environmental projects, of which USD105 million was invested at the Lipetsk plant, where air treatment facilities were upgraded for blast furnace and refractory operations, and carbon dioxide emissions were reduced at sintering operations. The Lipetsk plant also completed the upgrade of the process water supply system, and technology upgrades were also under way at Altai-koks, Stoilensky GOK, VIZ-Stal and other Group assets. The de-commissioning of two environmentally hazardous coke batteries at the site in Lipetsk helped significantly improve environmental performance.

These significant capital expenditures helped achieve tangible results.

For key Group NLMK assets, gross atmospheric emissions declined by 8%, while emissions per tonne were reduced by 4%. The introduction of methods preventing the discharge of pollutants with effluent helped reduce the relevant indicator by 16%.

All waste generated by the parent Company is recycled and used in the manufacturing of products for the chemical sector, road building and the construction materials sector. Previously stockpiled waste is also being recycled at the Lipetsk site with a recycling rate above 100%.

Looking forward, the Company intends to maintain significant levels of capital expenditure for environmental protection purposes. The introduction of new processes and installation of new technology will place the Company in line with top European business performers in terms of environmental safety, improve its competitive advantage and encourage sustained development of the Company as a business which fully complies with international environmental standards.



NLMK's ecological management system is considered one of the best in Russia.



## Human Resources

### Stanislav Tsyrlin

Vice President, HR and Management System

Head of HR and Management System since 2004. Graduated from Moscow Institute of Physics and Technology and from Stanford University.

## NLMK Group's human resources (HR) strategy is directed at continued improvements in HR policy and occupational health and safety.

NLMK Group recognises that human capital management policies are a key factor contributing to the successful development of the Company.

### Policies and principals

NLMK's HR policies are based on the principles of social partnership between employees and their employer, their mutual accountability for the results of labour, provision of safe working environments, performance-based compensation, equal opportunities for all employees, maintenance of social benefits and guarantees, and the implementation of additional corporate social initiatives.

The Company rigorously adheres to these principles and consistently pursues programmes intended to motivate employees for greater labour productivity and increased wages, create an environment to promote skill improvement, give career-growth priority to top performing personnel, and recruit both talented young and experienced employees.

### Employees

At present the NLMK Group comprises more than 100 businesses in Russia, the EU and the US. In 2008 average headcount for all businesses within the Group stood at 70,100

employees. Headcount growth compared to the previous year was mainly attributed to the consolidation of newly acquired steel assets. At the same time, with some employment streamlining at the Lipetsk site, average annual headcount there was reduced by 2% to 34,200 employees.

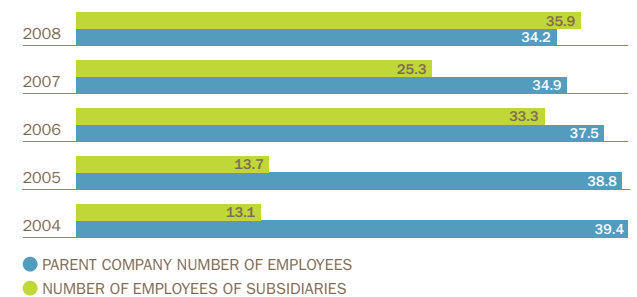
Throughout 2008 NLMK Group continued to improve its employee remuneration approach, aiming to reward highly-skilled employees, recruit a younger generation of staff and increase employee motivation for productive labour and quality products.

These efforts led to a 28% increase in the average monthly wage within the Group to USD1,004 and a 27% increase to USD1,048 at the parent Company.

The global financial crisis and falling demand and prices for steel and products caused a decline in output and employment numbers. In a crisis environment the key priority of the HR policy is to retain both highly-skilled employees with professional experience and promising young employees to replenish the talent pool. Employees who were made redundant due to production cuts were involved in other activities.

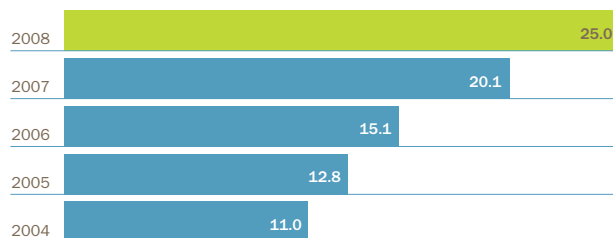
During the crisis the Company resorted to streamlining employment numbers primarily by cutting the number of support staff and refraining from hiring new personnel. In addition, employees of retirement age were encouraged to retire by offering separation packages; as a result, some 1,200 employees retired from the parent Company in December.

NUMBER OF EMPLOYEES AT PARENT PLANT, 2004-2008 (000'S PEOPLE)

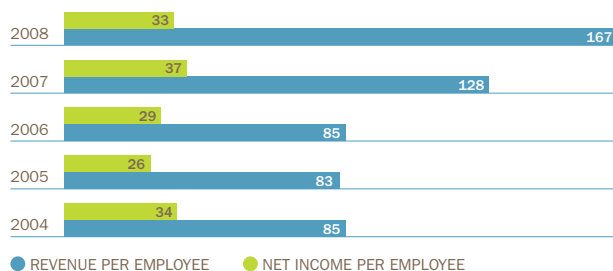


## Corporate social responsibility continued

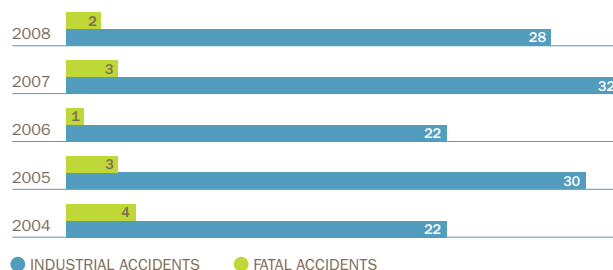
### AVERAGE MONTHLY WAGE, 2004–2008 ('000 RUBLES)



### REVENUE AND NET INCOME PER EMPLOYEE, 2004–2008 ('000 USD/EMPLOYEE)



### NLMK ACCIDENT RATE (PARENT COMPANY)



The above measures helped control personnel expenses and also retain skilled employees and in local communities.

#### Health and safety

The key priority of the Company's HR policy is to create a favourable environment for high labour productivity and the manufacturing of high value-added products

More than half of all NLMK Group employees boast high levels of proficiency, making this a major competitive advantage for the Company and creating the opportunity for implementing a large-scale technical upgrade and development programme.

The Company treats investments in professional personnel training as a prerequisite for maintaining long-term competitiveness, fast-paced development, increasing the value of human capital and, eventually, the capitalisation of the Company. Proper professional training provides both skill levels required to handle production challenges, and improves employee loyalty and dedication. It also encourages a healthy social and psychological climate at work, as well as directly promoting the development of a corporate culture.

More than half of NLMK Group employees have completed skill improvement courses in 2008.

Company personnel policies received strong outside recognition when NLMK won the Best Human Resources Service in the 2008 nationwide competition.

The Company operates hazardous production facilities and is responsible for the lives and health of its employees. Its current occupational health and safety management system is built in compliance with international standards. The Company industrial safety policy covers the following key areas: regular monitoring of industrial safety arrangements; medical examinations of employees, provision of personal and collective protective equipment, OHS briefings, increased personnel motivation for strict compliance with OHS requirements, improved workplace culture and stronger labour discipline.

In 2008 NLMK Group spent around USD19 million on occupational health and safety measures, a 51% increase year-on-year. This significant increase was due to the consolidation of Maxi-Group during the year. Substantial spending on industrial safety helped reduce industrial accidents at the main production site in Lipetsk in 2008 by 14% to 30 cases, with 2 fatal accidents compared to 3 in 2007.



NLMK believes that continuous improvement of health and safety performance is essential for a successful Company.

## Social Programmes

### Social Mission

The Company sees its social mission as achieving sustainable development goals aligned with the long-term economic interests of the business, contributing to community social welfare, the conservation of the environment and the encouragement of the observance of human rights within its territory of operation.

The combined efforts of the Company, its employees and civil society are aimed at creating a favourable and stable social and economic environment for its employees and local communities.

The Company recognises that long-term sustainability of its business depends on the macroeconomic stability in the regions of its operation. Against this background we find it strategically advisable to pursue a policy of corporate social responsibility regarding our employees and local communities.

Sustainable development in the regions of operation is an important component of the Company's development strategy, and we are pursuing a number of long-term programmes focusing on several priority objectives in this area:

- Promoting the sustainable development of territories where the Company's operations are based;
- Supporting the macroeconomic stability of local communities;
- Developing partnerships with regional and local governments;
- Creating comfortable living conditions for Company employees and local residents;
- Establishing and maintaining the reputation of a conscientious and attractive employer.

NLMK Group businesses play an important role in the economic and social sector developments in regions where they operate. NLMK is the largest taxpayer in the Lipetsk region. In 2008 the parent Company paid USD586 million in taxes to the consolidated budget of local governments in the Lipetsk region. Overall, Group companies paid a total of USD1,703 million in taxes to various levels of government.

NLMK provides mandatory and voluntary medical insurance policies for its employees. Under a range of medical insurance programmes, Company employees have access to in-patient and out-patient medical services; first aid treatment; preventive medical examinations; dental prosthetic services; restorative treatment in resorts; and high-tech medical assistance at specialised clinics for complicated medical conditions.

In 2008 overall medical expenses, including medical insurance, for key businesses within the Group totalled around USD5 million.

The NLMK Group is actively pursuing a private pension benefit programme for its employees as a founder of the Sotsialnoe Razvitie (Social Development) Private Pension Fund.

In 2008 NLMK Group businesses contributed USD5.3 million to the Sotsialnoe Razvitie Private Pension Fund on behalf of their employees. Pension fund reserves stood at USD64 million as of January 1, 2009.

NLMK is funding a housing construction programme at its own expense. The programme allows for the commissioning of more than 45,000 square meters of housing in 2008, helping improve conditions for more than 500 Company employees. Other companies within the Group are also involved in housing construction and improvement of housing conditions.

All NLMK Group businesses are engaged in charity programmes.

NLMK pursues charity activities via the Miloserdiye charity foundation established by the Company. The foundation promotes fitness and sports, science, culture, arts and health, encourages the spiritual development for the Lipetsk community. It provides support to low-income senior and physically challenged citizens, and to art clubs for children, studios, libraries, museums, and art galleries. Financial aid is provided to protect and maintain historical and architectural monuments.



We are promoting NLMK as an employer of choice for graduates and young professionals. Prospective employees at Lipetsk site.



Support for continuous improvement is a main focal point for our Company.