



Vladimir Lisin

\$11.7bn

REVENUE (USD)

39%

EBITDA MARGIN

\$4.54bn

EBITDA (USD)

25,000

AVERAGE MONTHLY WAGE
(RUBLES)

Dear shareholders,

2008 was a year of record achievements both for the global steel industry and your Company. We also saw how fragile the global financial system had become and how this created a damaging international crisis.

In 2008, despite the crisis in the second half of the year, NLMK achieved remarkable financial results. Revenue grew by 52%, EBITDA reached USD4.5 billion, and the EBITDA margin amounted to 39%. Net profit also reached a new high amounting to USD2.3 billion, despite write offs and provisions made in Q4 2008. It is no exaggeration to say that 2008 challenged the resilience of our strategy and efficiency of our management team and its ability to take the right decisions in a timely manner. Today I am pleased to announce that we have successfully overcome the difficulties we have been faced with. We have retained our robust financial position, allowing us to continue to develop despite the current downturn.

Overview

2008 was a year of record-high prices followed by an unparalleled market downturn which started in the third quarter. Steel is a major constituent of the global economy, its consumption being directly linked to the investment cycle. It is for this reason that the crisis influenced the industry both locally and globally and drove the prices down by 30-60% and demand by 20-40%. The decline in demand urged many companies to revisit their development strategies and management approach.

In such an environment our key competitive advantages – efficient vertical integration and the quality of our production assets – will successfully carry us through this crisis and leave the Company well placed to benefit from the eventual upturn.

Q4 2008 results and the Company's progress in Q1 2009 leave no doubt about the suitability of our long-term strategy.

Strategy, Creating Value

Our Company strives to increase shareholder value for the benefit of its owners and employees. This underpins our strategy to enhance efficiency through vertical integration, invest in the production of high quality products, expand our product mix, and enter new markets and product niches. We are confident that such a strategy will strengthen our profitability leadership among steel-making companies. A sound financial position and a conservative borrowing policy are the cornerstone of the Company's potential success.

Strategy Implementation in 2008

2008 proved to be the peak of the investment cycle. We allocated circa USD2 billion worth of investments into strengthening and developing our competitive advantages. This amount exceeds total investment for 2001-2005 and is double the amount of investment for 2007. We focused primarily on the construction of new facilities allowing us to produce steel of a higher quality with lower costs. Equally important is the development of raw materials assets aimed at increasing output and enhancing efficiency. We are convinced these investments will provide the basis for the Company's

sustainable financial performance. However, the potential further decline of the industry in 2009 has caused us to cut our planned investments by at least 50% to USD1 billion to maintain NLMK's financial stability. This year we are set to finish projects which are already underway and to invest in projects offering the highest yields, such as the upgrade of our transformer steel capacities. At the same time we intend to unflinchingly implement our organic growth strategy once the industry has stabilised. In 2008 we continued with the integration of Maxi-Group, allowing NLMK to gain a substantial share of the Russian long products market and to satisfy its requirements in scrap. Substantial improvements in Maxi-Group's operational performance were achieved through an increase in sales volumes, cuts in operational expenses and growth in scrap collection. We continue to seek the closure of the transaction with Mr. Maximov, the founder and minority shareholder of the business.

As part of the Company's strategy to increase the output of high value-added products and diversify sales markets, in August 2008, we took the decision to acquire John Maneely Company, a US-based pipes producer. This transaction was meant to help create the largest vertically-integrated structural pipes producer in North America. However, following the start of the financial downturn, regrettably we had no choice but to rescind the transaction. This was the only prudent way to keep the Company financially stable and avoid the risks of an excessive debt burden in the changed circumstances.

In 2008 we successfully completed the optimisation of the Company's structure to enhance management efficiency. As a result of the disposal of non-core assets, the Company allocated an additional USD250 million for its further development. By buying out minority stakes in a number of subsidiaries, NLMK secured 100% ownership in these companies. In the course of the disposal of NLMK's stake in the Tuapse commercial seaport, we ensured that the buyer should offer to NLMK minority shareholders an option to acquire Tuapse seaport shares on a pro rata basis according to their shareholdings in NLMK. This proposal allowed the minority shareholders to maintain their interest in the port thereby protecting their interests in this transaction. In the first three quarters of 2008, the Company continued to develop its asset portfolio. This year, in order to enhance controls and efficiently manage export sales, the Company acquired trading companies through which it has recently been selling over 80% of its exports. This measure has improved the effectiveness and operating management of the sales function.

In late 2008, NLMK acquired the US hot-rolled steel producer Beta Steel. We consider the acquisition to be strategically beneficial as it enables us to broaden exposure to our key sales markets and provides a basis for further development.

Dividends

Due to the strong results in the first half of the year, the Company paid a high interim dividend of RUR2 (USD0.079) per ordinary share, allocating about USD470 million or about 20% of 2008 net profit to the payment of dividends. Due to the deterioration of the economic climate, the Board of Directors has recommended that no dividend is paid for the second half of 2008.

Board of Directors and Corporate Governance

Compliance with best practice in corporate governance has always been a priority for the Company and its Board. The close co-operation of the Company's directors and its management facilitates the development and implementation of our value-creating strategy whilst observing the rights of all its shareholders. As a result, last year Standard & Poor's rating agency included NLMK in its list of the top 10 most transparent companies in Russia.

Corporate Social Responsibility

Social responsibility is at the core of the Company's corporate culture. We understand that the coming years will not be easy for the industry, but we are certain that the retention of professionals, support to local communities and social initiatives will be key drivers of our business. NLMK's Board of Directors and management will adhere to this social partnership strategy. In 2008 we continued to invest in occupational health and safety. The frequency of industrial accidents fell by 14% and emissions volume was cut by 8%. We intend to continue to meet the Company's social obligations.

Outlook

We enter 2009 with a sustainable growth strategy which will enable the Company to show stable results even in the context of the economic downturn. We are confident that, despite lower results, NLMK will retain its profitability leadership in the sector. This, in turn, will allow us to maintain the Company's financial strength, continue our technical upgrade, consider new acquisitions, achieve long-term goals for the Company's sustainable growth and leave us well placed to benefit from the recovery. Finally, I would like to highlight the invaluable contribution of NLMK'S employees, which has helped us to achieve record results and will ensure that we successfully overcome this crisis.



Vladimir Lisin,
Chairman