

Novolipetsk Steel (NLMK)

Q1 2010

Financial and Production Results

US GAAP

Consolidated Financial Statement

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Key highlights

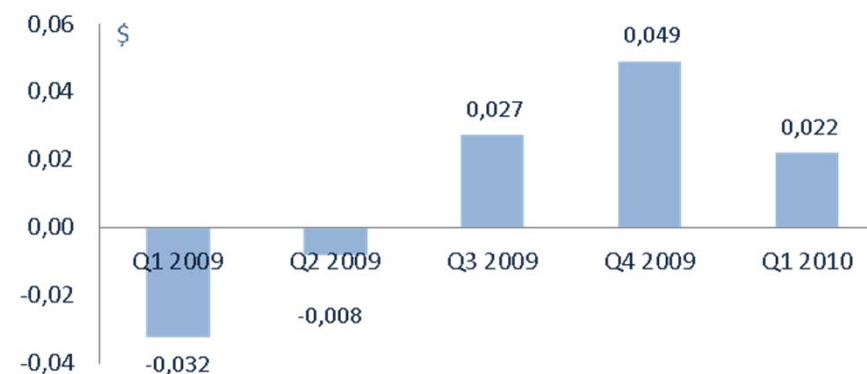
- **Q1 2010 financial performance**

- Revenue: \$1,697 m (-6% q-o-q)
- Production cost \$1,050 m (+5% q-o-q)
- EBITDA¹ \$386 m
- EBITDA margin 23% (-6 p.p. q-o-q)
- Net income² \$132 m

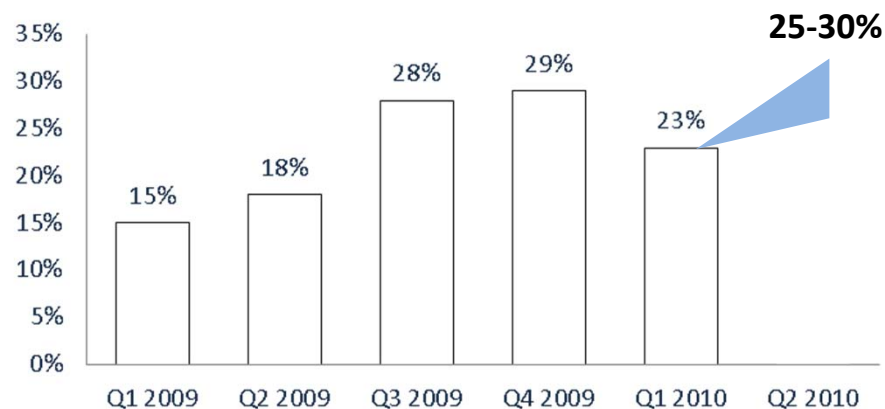
- **Q1 2010 operating results**

- Crude steel production: 2.7 m t (-6% q-o-q)
- Steel product sales: 2.8 m t (flat q-o-q)
- Sales of HVA products: 0.7 m t (-7% q-o-q)
- Average selling steel price for \$556/t (-4% q-o-q)
- Cash cost of slab production \$286 (+19% q-o-q)

Earnings per share



EBITDA margin



¹ EBITDA is calculated as the sum total of net profit, net interest expense, income tax, loss on disposal of fixed assets, impairment losses, accretion expense on asset retirement obligation, depreciation and amortization (without gain / (loss) on investments, income from discontinued operations, gain from disposal of subsidiaries, foreign currency exchange, settlement agreement on the dispute, debt issuing cost and gain on loan restructuring) and other items

² Net loss attributable to Novolipetsk Steel shareholders

Production highlights

- **Stable crude steel production ~ 2.7 m t (-6% q-o-q)**

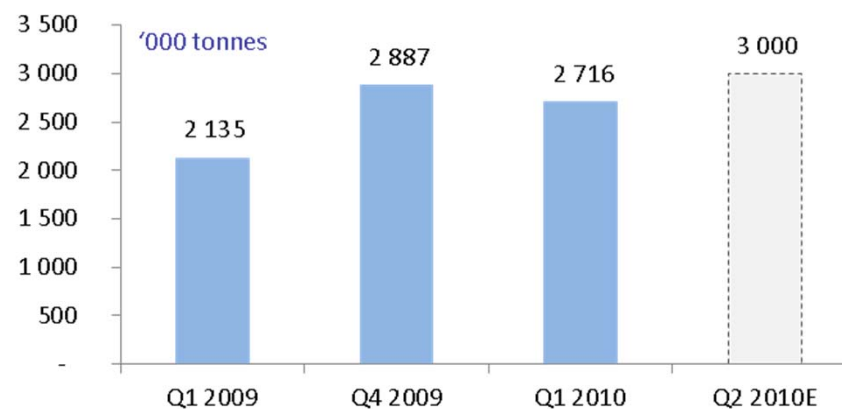
- Lipetsk plant – 2.3 m t
- Long Products Segment – 0.25 m t
- Beta Steel Corp. – 0.15 m t

- **Q1 2010 capacity utilization rate**

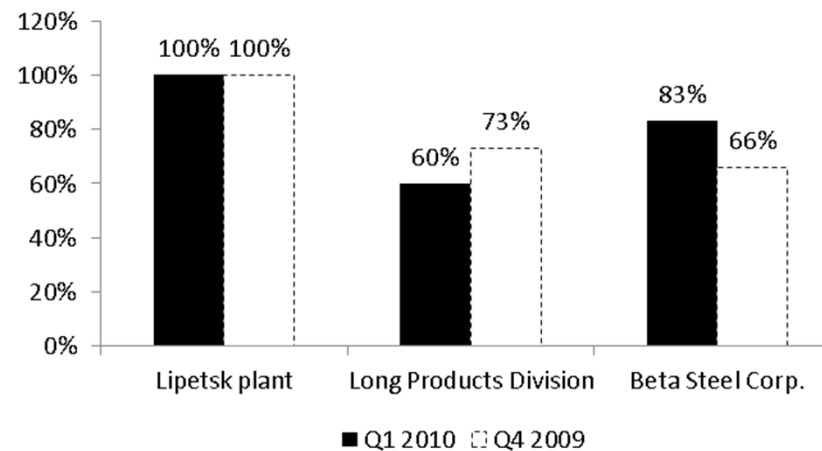
- Lipetsk plant – 100%
- Long Products Segment – 60%
- Beta Steel Corp. – 83%

- **Q2 2010 crude steel production outlook ~ 3 m t**

Crude steel output



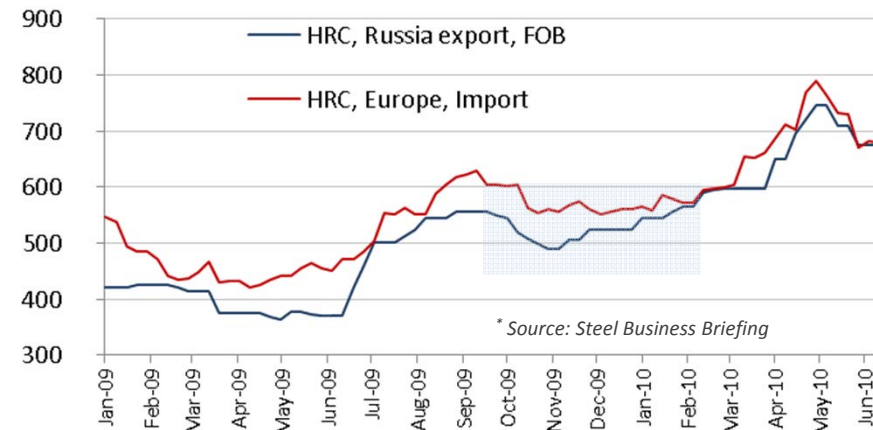
Capacity utilization rate



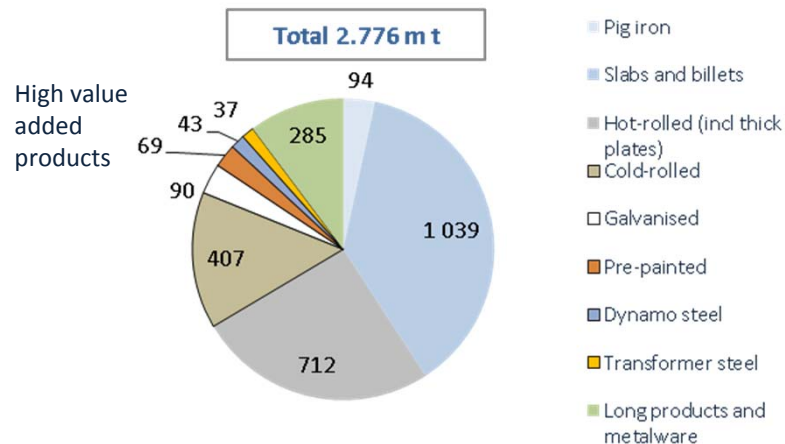
Sales: volumes and prices

- **Sales of steel products Q1 2010:**
2.776 m t (in line with the previous quarter)
 - Sustainable sales volumes supported by overseas assets' operating results despite the current seasonal decline in demand
 - ...however the prices of delivered steel products were lower q-o-q (assuming the production/sales cycle)

Price dynamics 2009-2010

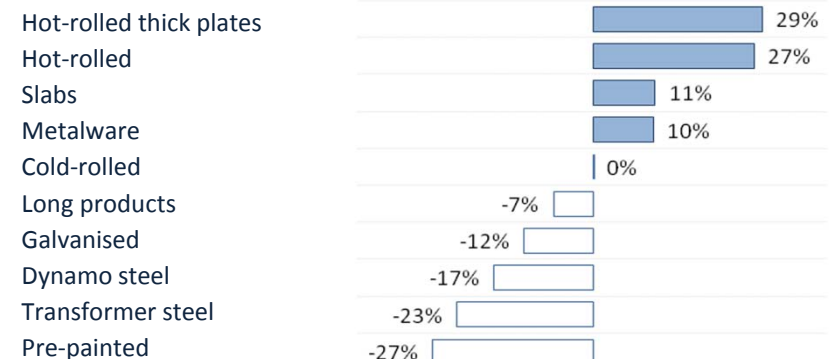


Sales structure Q1 2010*



* Tonnage wise

Change in sales structure, Q1 2010/Q4 2009*

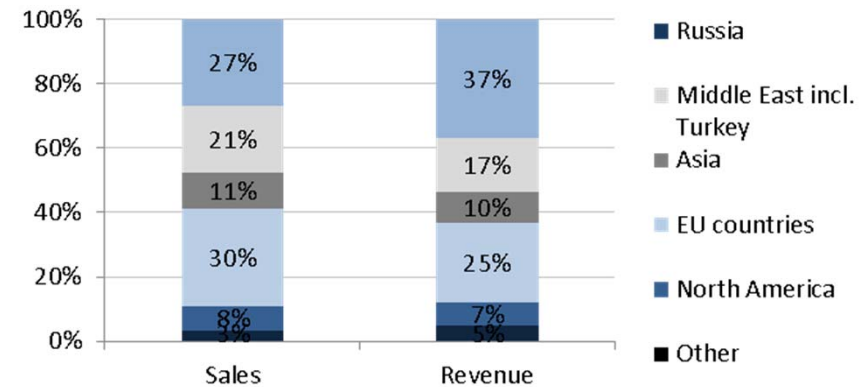


* Tonnage wise

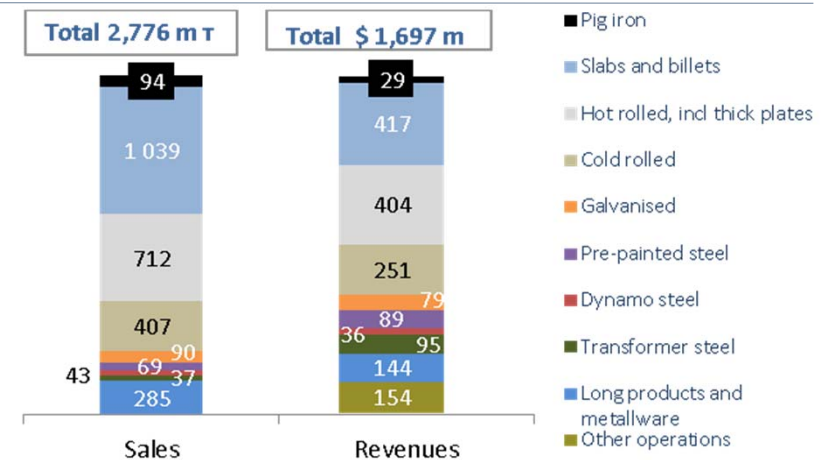
Revenue

- **Insignificant q-o-q decline in revenue**
 - Driven by slight correction in steel prices on the global markets
 - ...as well as by an increase in semi-grade products within the sales structure
- **Geographical diversity**
 - Sales to developed countries increased

Sales and revenue by region in Q1 2010



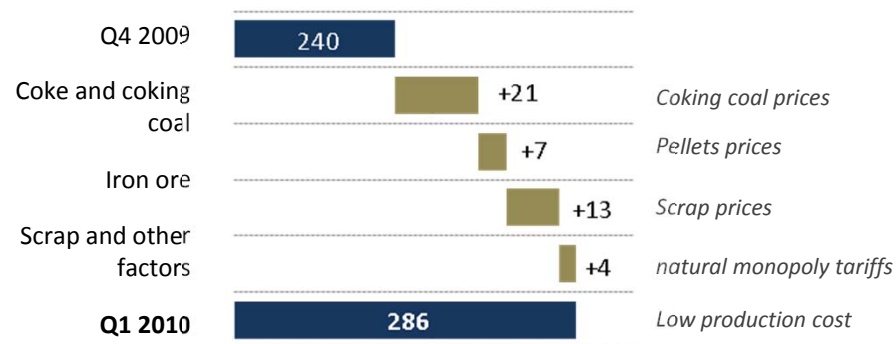
Sales and revenue by products in Q1 2010



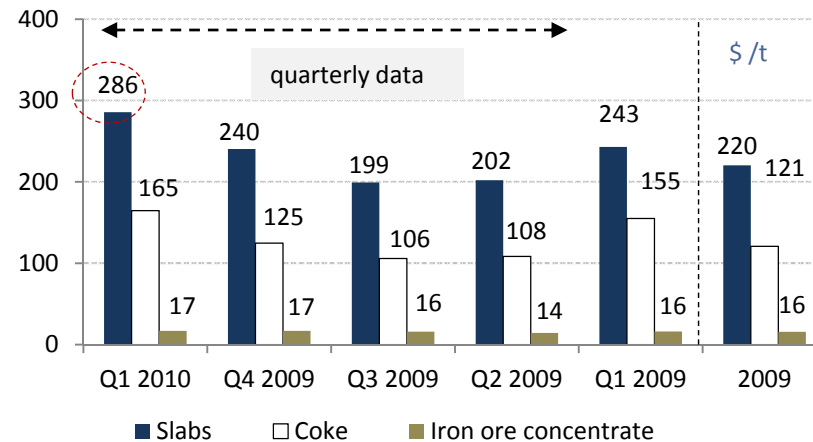
Production cost

- Company maintained position as one of the lowest cost producers in the world
- Cash cost of slabs is ~ 286 USD/t (+19% q-o-q)
- Key drivers behind cash cost increase
 - Higher prices for coking coal and scrap
 - Natural monopoly tariffs increase
 - Seasonal maintenance works

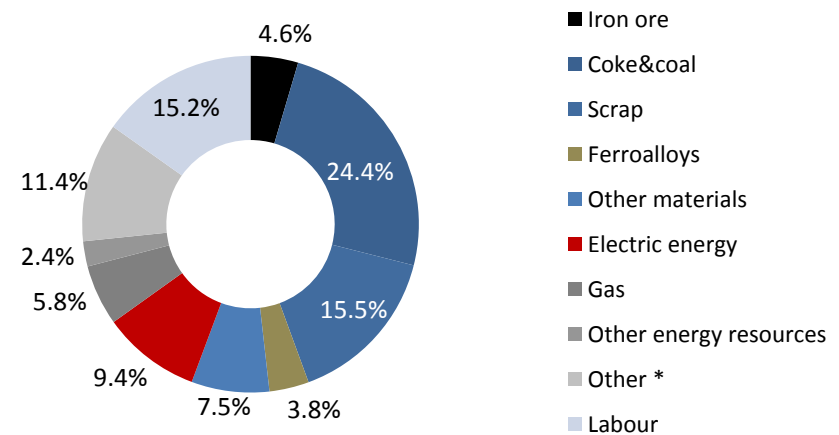
Slab cash cost drivers



Cash cost by product



Total production costs in Q1 2010

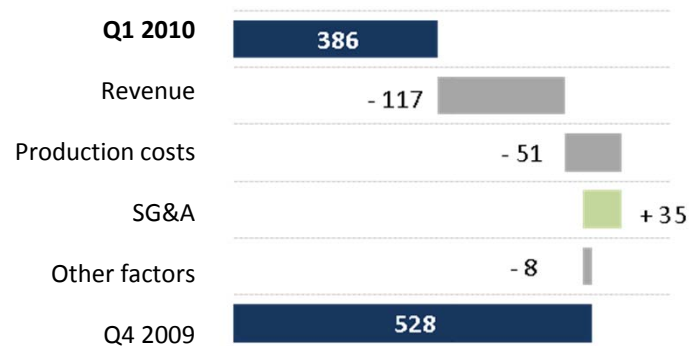


* third party services, refractory bricks, spare parts, etc

Profitability

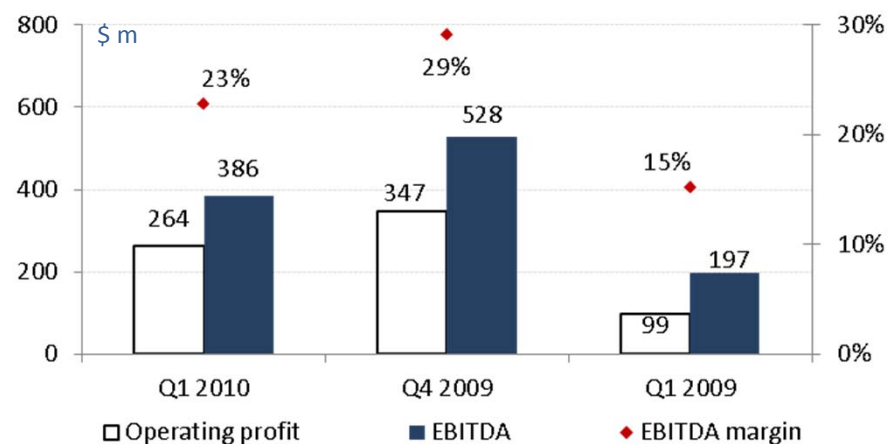
- **Q1 '10 EBITDA \$386 m (-27% q-o-q)**
- **EBITDA margin 23% (-6 p.p.)**
 - Driven mainly by seasonal price decline and product mix changes
 - .. as well as by growing raw material prices and natural monopoly tariffs

EBITDA drivers

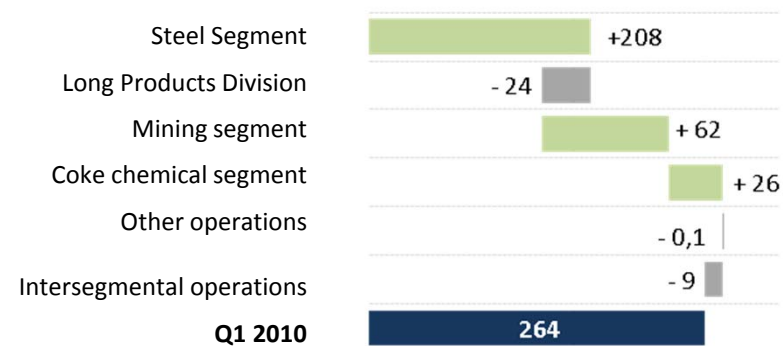


\$ m

Operating profit and EBITDA



Operating profit by segments



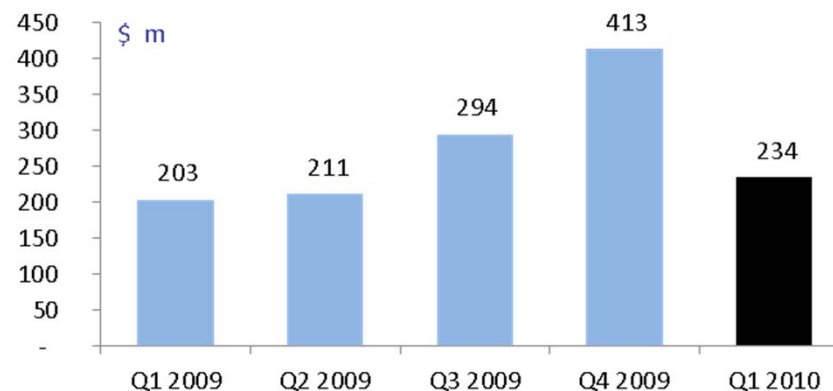
\$ m

Investments

Main investments projects

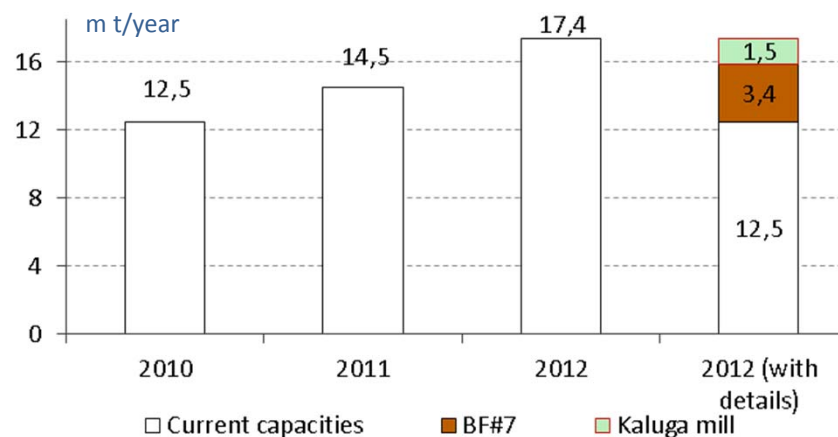
- Crude steel production growth
 - Lipetsk plant*
 - BF №7 (continued)
 - Steelmaking: BOF, ladle furnaces, vacuum degasser (continued)
 - High capacity ladle furnace, 4 m tonnes of steel per annum (launched in March 2010)
- Rolling capacities
 - Continuous reheating furnace (project restarted in march 2010)
 - New pre-painting line (continued)
 - Transformer steel production (continued)
- Long Products Segment
 - Kaluga EAF based mill project (continued)
- Mining Segment
 - Mining pit expansion and upgrade of enrichment facilities at Stoilensky (continued)

Investment dynamics*



* Cash Flow Statement Data: Purchases and construction of property, plant and equipment

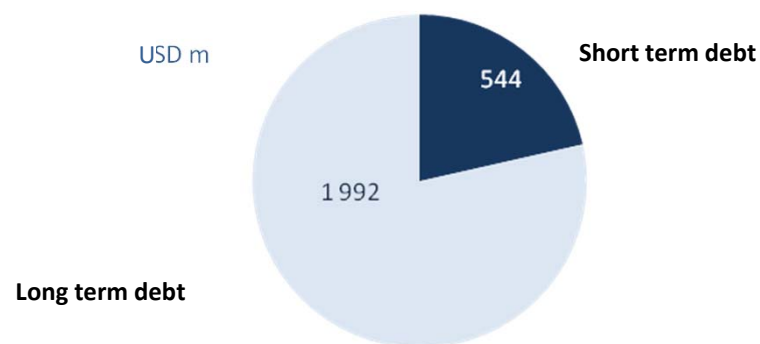
Growth of steel production capacities



Debt Position

- **Total debt of ~USD 2,536 bn including**
 - ST debt USD544 m
 - LT debt USD1,991 m
 - incl. 3 bond issues
- **Net debt USD955 m**
- **USD1,582 m of cash and short-term investments**
- **Net debt / EBITDA³ 0.58 (as at 31.03.2010)**

Debt structure



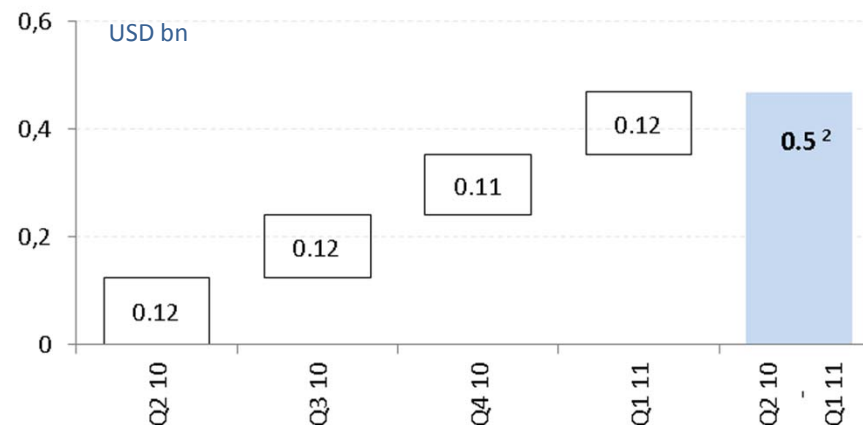
1. Short term debt position of the company can differ from the numbers presented in the Consolidated Financial Statement due to accounting policy requirements under US GAAP

2. Incl. interest payments

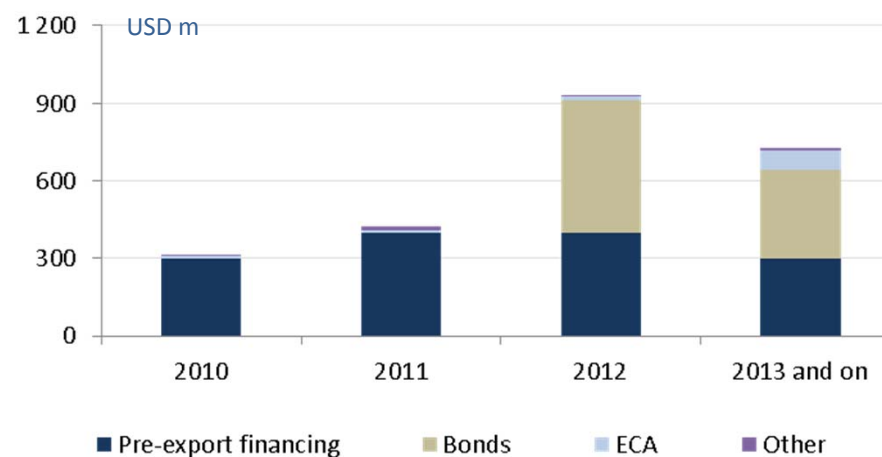
3. 12M EBITDA

4. As at 31.03.2010

Short term debt payment¹



Debt maturities pay-off



Outlook

Q2 2010

- Steel production and sales at ~3 m tonnes
- Rise in steel selling prices by 20-30%
- Steel cash costs under control
- EBITDA margin at ~ 25-30%

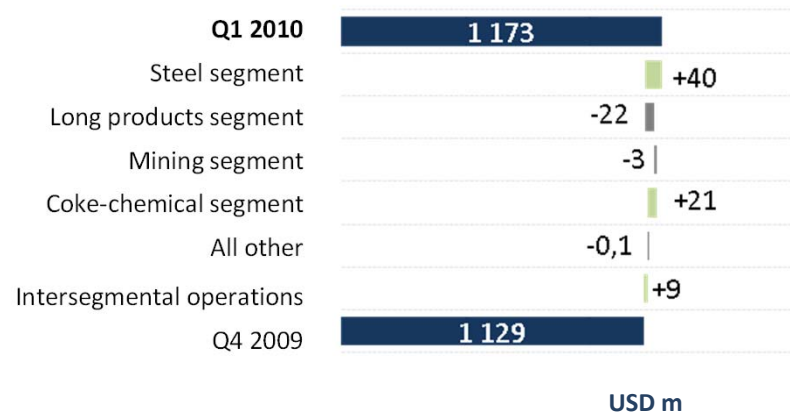
Q3 2010

- Ongoing steel price volatility

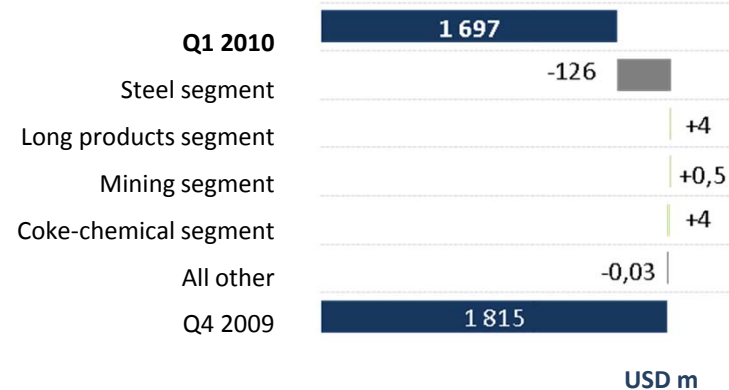
Segmental dynamics

- **In Q1 '10 the Steel segment drove the financial performance of the Group**
 - Revenue USD1,472 m (87%)
 - Operating profit USD208 m (79%)
- **Improved Long Products Division performance**

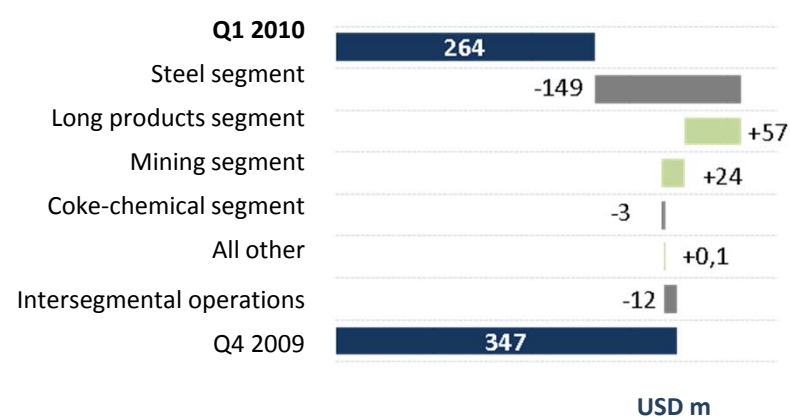
Production cost changes



Changes in revenue from external customers



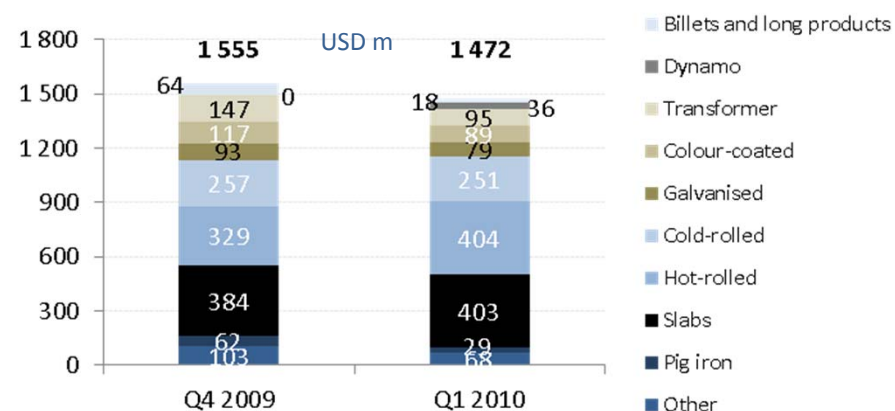
Operating profit changes



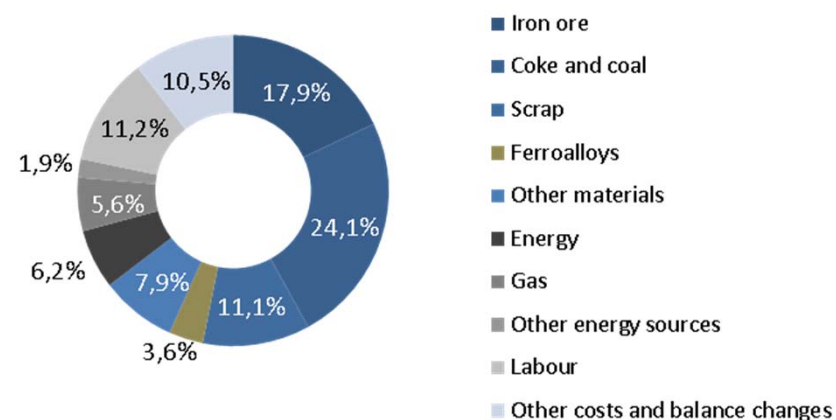
Steel Segment

- **Stable sales and changes in sales structure in favor of commoditized products**
- **Lower profitability due to**
 - Reduced average prices and sales volumes
 - Increased raw material prices
 - Increased natural monopoly tariffs

Sales revenues from 3rd parties by product



Steel Segment production cost of sales , Q1 '10



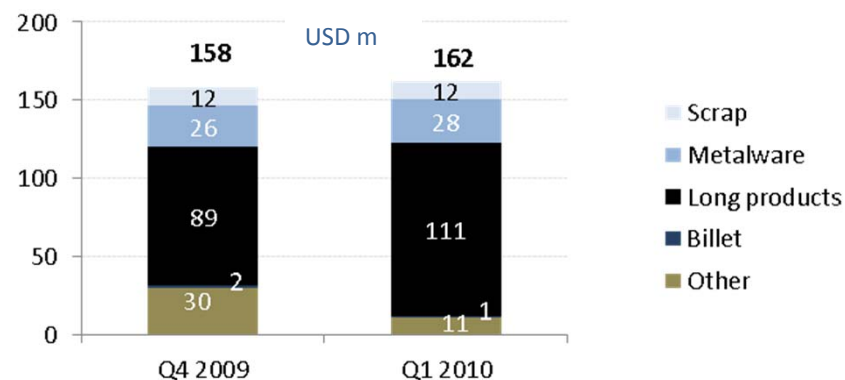
(tonnes`000)	Q1 2010	Q4 2009	Change	Q1 2010	Q1 2009	Change
Steel production	2 462	2 472	0%	2 462	1 755	40%
Steel sales ¹	2 501	2 562	(2%)	2 501	2 107	19%
(USD mln)						
Revenue	1 493	1 622	(8%)	1 493	1 155	29%
incl. external customers	1 472	1 597	(8%)	1 472	1 136	30%
Cost of sales	(1 084)	(1 044)	4%	(1 084)	(887)	22%
Operating profit	208	357	(42%)	208	91	128%
- margin	14%	17%		14%	8%	

1. Incl. sales of other segment's products by traders of steel segment

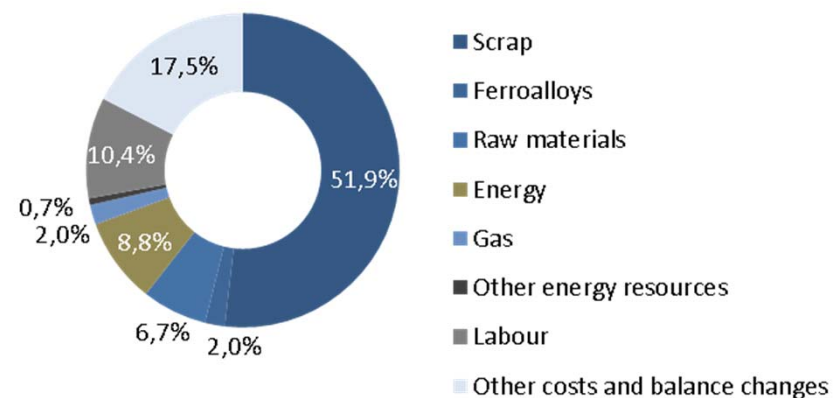
Long Products Segment

- Seasonal sales decline on the domestic market due to a slowdown in construction during the winter period
- Lower losses due to no one-off transactions (goodwill impairment) in Q1 2010

Sales revenues from 3rd parties by product



Long products production cost of sales, Q1 '10



(tonnes`000)	Q1 2010	Q4 2009	Change	Q1 2010	Q1 2009	Change
Steel production	254	414	(39%)	254	380	(33%)
Steel sales	314	333	(6%)	314	317	(1%)
in NLMK Group ¹	38	108	(65%)	38	88	(57%)
(USD mln)						
Revenue	224	244	(8%)	224	152	47%
incl. external customers	162	158	2%	162	102	58%
Cost of sales	(211)	(233)	(9%)	(211)	(146)	44%
Operating profit	(24)	(81)	(70%)	(24)	(26)	(7%)
- margin	-11%	-2%		-11%	-17%	

1. Incl. sales of other segment's products by traders of steel segment

Mining Segment

- Maximum utilization of in-house iron-ore in Q1 '10

- Supplies to NLMK –100% of gross sales

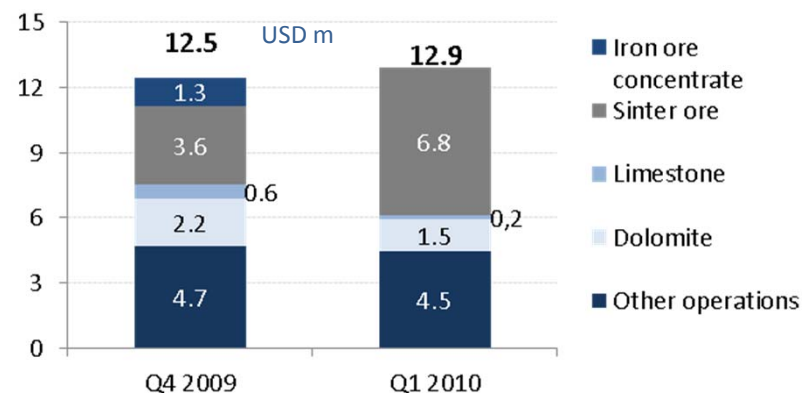
- Revenue growth by 12% (q-o-q)

- Operating profit growth by 61% (q-o-q)

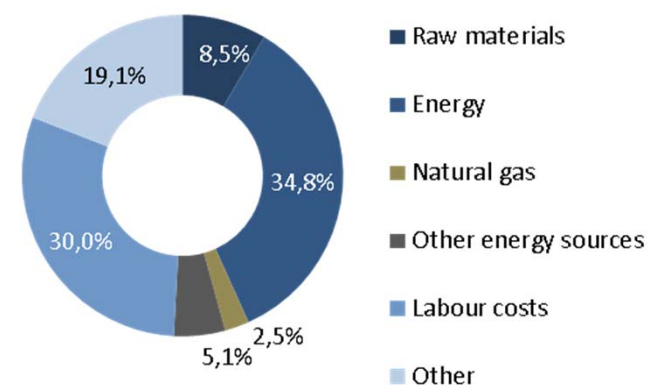
(tonnes'000)	Q1 2010	Q4 2009	Change	Q1 2010	Q1 2009	Change
Production						
iron-ore concentrate	2 899	2 945	(2%)	2 899	2 168	34%
sinter ore	436	431	1%	436	234	86%
Sales						
iron-ore concentrate	2 935	2 941	(0%)	2 935	2 235	31%
in NLMK Group ¹	2 935	2 937	(0%)	2 935	2 082	41%
sinter ore	383	510	(25%)	383	329	16%
(USD mln)						
Revenue	153	136	12%	153	89	71%
incl. external customers	13	12	4%	13	12	3%
Cost of sales	(77)	(80)	(4%)	(77)	(55)	39%
Operating profit	62	39	61%	62	24	160%
- margin	41%	28%		41%	27%	

1. Incl. sales of other segment's products by traders of steel segment

Sales revenues from 3rd parties by product



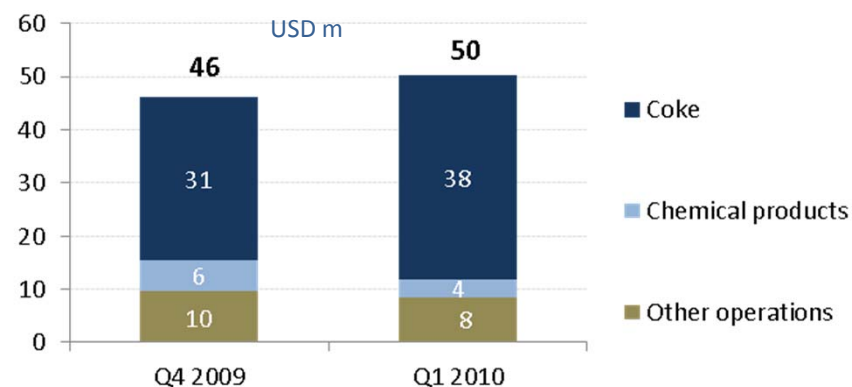
Mining segment production costs, Q1 '10



Coke-Chemical Segment

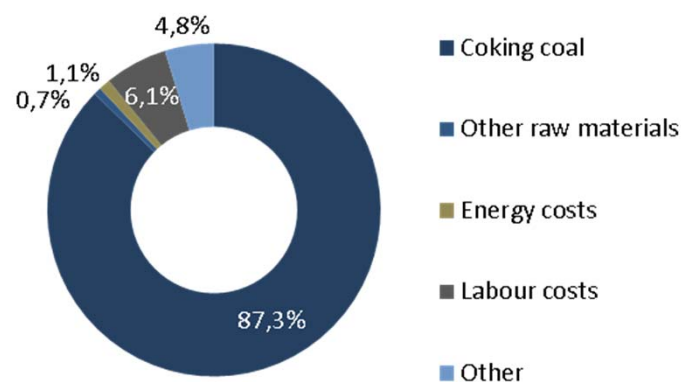
- Rise in coal and coke prices
- Sales growth in Q1:
 - Sales growth +8% (q-o-q)
...including supplies to NLMK +3%;
...export deliveries (Europe, CIS)
 - Revenue +13% (q-o-q)
- Operating profit margin 14%

Sales revenues from 3rd parties by product



(tonnes`000)	Q1 2010	Q4 2009	Change	Q1 2010	Q1 2009	Change
Production						
coke 6% moisture	874	822	6%	874	597	47%
Sales						
dry coke	841	781	8%	841	551	53%
in NLMK Group ¹	670	648	3%	670	344	95%
(USD mln)						
Revenue	194	171	13%	194	81	139%
Incl. external customers	50	46	9%	50	38	33%
Cost of sales	(156)	(135)	16%	(156)	(74)	109%
Operating profit	26	29	(10%)	26	(3)	(873%)
- margin	14%	17%		14%	-4%	

Coke-chemical production costs, Q1 '10



1. Incl. sales of other segment's products by traders of steel segment

Segmental Information

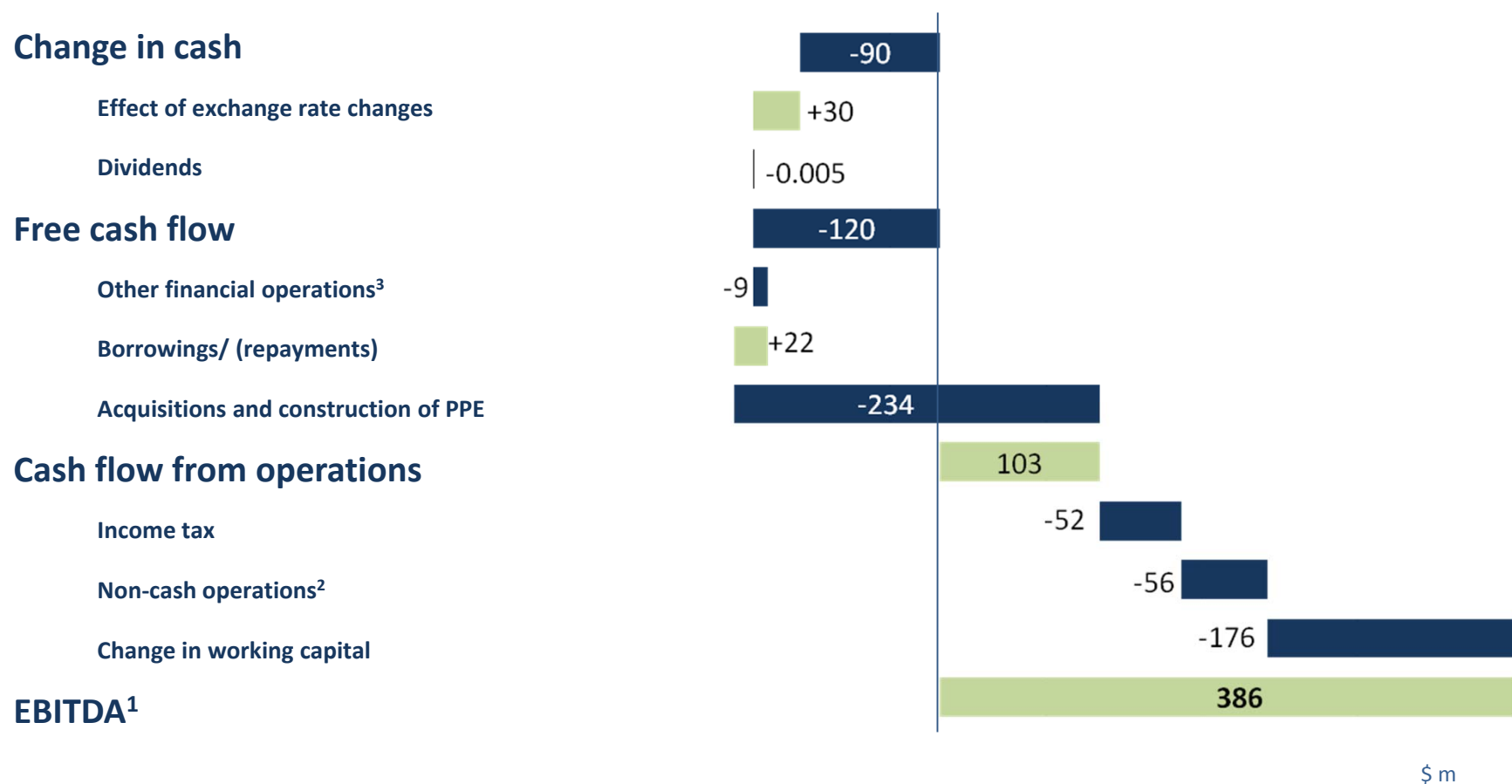
Q1 2010 (million USD)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1,472	162	13	50	0.4	1,697		1,697
Intersegment revenue	21	62	140	144	0.0	366	(366)	
Gross profit	408	13	76	38	0.2	536	(12)	524
Operating income/(loss)	208	(24)	62	26	(0.1)	273	(9)	264
<i>as % of net sales</i>	<i>14.0%</i>	<i>(10.7%)</i>	<i>40.8%</i>	<i>13.6%</i>	<i>(37.2%)</i>	<i>13.2%</i>		<i>15.6%</i>
Income / (loss) from continuing operations before minority interest	131	(83)	50	17	0.4	115	20	135
<i>as % of net sales</i>	<i>8.8%</i>	<i>(37.1%)</i>	<i>32.5%</i>	<i>8.7%</i>		<i>5.6%</i>		<i>7.9%</i>
Segment assets including goodwill ¹	11,409	2,180	1,002	793	48	15,432	(2,403)	13,029

Q4 2009 (million USD)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1,597	158	12	46	0.4	1,815		1,815
Intersegment revenue	24	86	124	125	0.0	359	(359)	
Gross profit	578	11	56	36	0.1	681	4	686
Operating income/(loss)	357	(81)	39	29	(0.3)	344	4	347
<i>as % of net sales</i>	<i>22.0%</i>	<i>(33.2%)</i>	<i>28.3%</i>	<i>17.1%</i>	<i>(62.6%)</i>	<i>15.8%</i>		<i>19.1%</i>
Income / (loss) from continuing operations before minority interest	443	(183)	34	18	(0.6)	311	(67)	244
<i>as % of net sales</i>	<i>27.3%</i>	<i>(75.2%)</i>	<i>24.7%</i>	<i>10.6%</i>		<i>14.3%</i>		<i>13.4%</i>
Segment assets including goodwill ²	10,543	2,105	1,001	753	42	14,444	(1,942)	12,502

¹ as at 31.03.2010

² as at 31.12.2009

Q1 2010 EBITDA to Cash Flow bridge



¹ EBITDA = Net income (after minorities) + income tax ± interest expense/(income) + depreciation ± losses/(gains) on disposals of property, plant and equipment and impairment losses ± losses/(gains) on financial investment ± losses/(gains) from disposal of subsidiaries + accretion expense on asset retirement obligations – gains on loan restructuring-(+)gains (losses) on discontinued operations + equity in net (earnings) / losses of associates –(+) net foreign currency exchange + settlement of agreement on the dispute and other extraordinary expenses.

² Non-cash transactions include corrections for coordinating net profit and net operating cash flow excluding depreciation & amortization, losses/(gains) on disposals of property, plant and equipment, accretion expense on asset retirement obligations, losses/(gains) on financial investment and losses/(gains) from discontinued operations

³ Other financing activities include losses/(gains) on disposals of property, plant and equipment, gain from disposal of subsidiaries, acquisitions of stake in existing subsidiaries and settlement of abandoned acquisition and change in restricted cash funds as well as other financial corrections

Consolidated Statement of Income

	Q1 2010	Q4 2009	Q1 2010/Q4 2009		Q1 2010	Q1 2009	Q1 2010/Q1 2009	
(mln USD)			+ / -	%			+ / -	%
Sales revenue	1,697	1,815	(117)	(6%)	1,697	1,293	404	31%
Production cost	(1,050)	(1,000)	(51)	5%	(1,050)	(874)	(176)	20%
Depreciation and amortization	(123)	(129)	6	(5%)	(123)	(97)	(26)	27%
Gross profit	524	686	(162)	(24%)	524	322	202	63%
General and administrative expenses	(66)	(64)	(3)	4%	(66)	(90)	23	(26%)
Selling expenses	(161)	(204)	43	(21%)	(161)	(111)	(50)	46%
Taxes other than income tax	(32)	(26)	(5)	21%	(32)	(23)	(9)	41%
Impairment losses		(44)	44	(100%)				
Operating income	264	347	(83)	(24%)	264	99	165	167%
Gain / (loss) on disposals of property, plant and equipment	(2)	9	(11)		(2)	(2)	0	(8%)
Gains / (losses) on investments	(1)	(9)	8	(85%)	(1)	(1)	0	(11%)
Interest income	11	7	5	73%	11	18	(6)	(36%)
Interest expense	(8)	(39)	31	(80%)	(8)	(54)	46	(85%)
Foreign currency exchange loss, net	(53)	(0)	(53)		(53)	(113)	60	(53%)
Other expense, net	(25)	(20)	(5)	23%	(25)	(57)	32	(57%)
Income from continuing operations before income tax	187	294	(107)	(37%)	187	(110)	297	(269%)
Income tax	(52)	(50)	(2)	4%	(52)	1	(54)	0%
Equity in net earnings/(losses) of associate	(27)	29	(56)	(191%)	(27)	(143)	116	(81%)
Net income	108	273	(165)	(60%)	108	(252)	360	(143%)
Less: Net loss / (income) attributable to the non-controlling interest	24	21	3	13%	24	58	(34)	(59%)
Net (loss) / income attributable to OJSC Novolipetsk Steel stockholders	132	294	(163)	(55%)	132	(194)	325	(168%)
EBITDA	386	528	(141)	(27%)	386	197	190	96%

Consolidated Balance Sheet

	as at 31.03.2010	as at 31.12.2009	as at 30.09.2009	as at 30.06.2009	as at 31.03.2009	as at 31.12.2008	as at 31.12.2007
(mln. USD)							
ASSETS							
Current assets	4,091	3,877	3,854	4,161	4,271	5,346	4,388
Cash and cash equivalents	1,157	1,247	1,642	1,591	1,546	2,160	1,155
Short-term investments	424	452	126	467	338	8	153
Accounts receivable, net	1,065	913	908	882	1,187	1,488	1,696
Inventories, net	1,324	1,134	1,052	1,031	1,050	1,556	1,236
Deferred income tax assets	59	72	33	95	45		
Other current assets, net	62	58	93	94	90	100	147
Non-current assets	8,938	8,625	8,596	8,178	7,526	8,718	8,688
Long-term investments, net	402	468	720	748	719	816	819
Property, plant and equipment, net	7,688	7,316	7,026	6,612	6,032	6,826	6,450
Intangible assets	201	203	211	213	211	235	189
Goodwill	572	557	603	577	530	614	1,189
Other non-current assets, net	49	68	36	28	34	34	41
Deferred income tax assets	26	12					
Non-current assets, held for sale						194	
Total assets	13,029	12,502	12,450	12,339	11,797	14,065	13,076
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current liabilities	2,581	1,417	1,998	2,264	2,279	2,980	3,002
Accounts payable and other liabilities	963	841	997	1,109	1,162	1,879	1,395
Short-term borrowings	544	557	957	1,126	1,090	1,080	1,537
Current income tax liability	26	19	44	29	27	10	71
Current liabilities, held for sale						11	
Non-current liabilities	2,581	2,475	2,059	2,149	2,111	2,361	975
Long-term borrowings	1,992	1,939	1,571	1,668	1,709	1,930	73
Deferred income tax liability	409	396	371	358	288	297	586
Other long-term liabilities	180	140	116	123	113	129	317
Non-current liabilities, held for sale						5	
Total liabilities	4,114	3,892	4,057	4,414	4,390	5,341	3,978
Minority interest							107
Stockholders' equity							8,992
Common stock	221	221	221	221	221	221	221
Statutory reserve	10	10	10	10	10	10	10
Additional paid-in capital	112	112	112	118	138	52	52
Other comprehensive income	(596)	(797)	(738)	(1,066)	(1,659)	(550)	1,182
Retained earnings	9,303	9,171	8,877	8,713	8,762	8,956	7,526
NLMK stockholders' equity	9,050	8,718	8,483	7,997	7,472	8,690	
Non-controlling interest	(136)	(108)	(89)	(71)	(64)	33	
Total stockholders' equity	8,915	8,610	8,393	7,926	7,408	8,723	
Total liabilities and stockholders' equity	13,029	12,502	12,450	12,339	11,797	14,065	13,076

Consolidated Cash Flow Statement

	Q1 2010	Q4 2009	Q1 2010/Q4 2009		Q1 2010	Q1 2009	Q1 2010/ Q1 2009	
(mln. USD)			+ / -	%			+ / -	%
Cash flow from operating activities								
Net income	108	273	(165)	(60%)	108	(252)	360	0%
Adjustments to reconcile net income to net cash provided by operating								
Depreciation and amortization	123	129	(6)	(5%)	123	97	26	27%
Loss on disposals of property, plant and equipment	2	(9)	11		2	2	(0)	(8%)
(Gain)/loss on investments	1	9	(7.7)	(85%)	1	1	(0)	(11%)
Equity in net earnings of associate	27	(29)	56		27	143	(116)	(81%)
Defferd income tax (benefit)/expense	8	(2)	11		8	(27)	35	0%
Impairment losses		44	(44)					
Loss / (income) on forward contracts	(4)	(156)	151	(97%)	(4)	17	(21)	0%
Other movements	14	2	12	532%	14	10	4	39%
Changes in operating assets and liabilities								
Increase in accounts receivables	(122)	(10)	(112)		(122)	98	(220)	0%
Increase in inventories	(154)	(89)	(64)	72%	(154)	294	(448)	
Decrease/(increase) in other current assets	(2)	12	(14)	0%	(2)	(4)	2	(58%)
Increase in accounts payable and oher liabilities	95	(6)	102		95	(15)	111	
Increase/(decrease) in current income tax payable	6	(25)			6	18	(11)	(65%)
Net cash provided from operating activities	103	143	(40)	(28%)	103	382	(279)	(73%)
Cash flow from investing activities								
Proceeds from sale of property, plant and equipment	3	2	1	34%	3	2	2	99%
Purchases and construction of property, plant and equipment	(234)	(413)	179	(43%)	(234)	(203)	(31)	15%
Settlement of abandoned acquisition						(234)	234	0%
Proceeds from sale of investments	12	8	4	46%	12	0	12	
Placement of bank deposits and purchases of other investments	(8)	(25)	17	(68%)	(8)	(307)	299	(97%)
Loan issued		(70)	70			(129)	129	
Net cash used in investing activities	(227)	(498)	270	(54%)	(227)	(871)	643	(74%)
Cash flow from financing activities								
Proceeds from borrowings and notes payable	482	506	(24)	(5%)	482	263	219	83%
Repayments of borrowings and notes payable	(460)	(529)	69	(13%)	(460)	(321)	(140)	44%
Capital lease payments	(17)	(30)	14	(45%)	(17)	(18)	1	(6%)
Dividends paid to minority shareholder of existing subsidiaries		(0)	0			(0)	0	
Dividends to shareholders	(0)	(1)	1	(99%)	(0)	(1)	1	(99%)
Net cash used in financing activities	5	(54)	59	0%	5	(76)	81	0%
Net increase / (decrease) in cash and cash equivalents	(120)	(409)	289	(71%)	(120)	(565)	445	(79%)
<i>Effect of exchange rate changes on cash and cash equivalents</i>	30	14	16	109%	30	(49)	79	
<i>Cash and cash equivalents at the beginning of the period</i>	1,247	1,642	(395)	(24%)	1,247	2,160	(913)	(42%)
Cash and cash equivalents at the end of the period	1,157	1,247	(90)	(7%)	1,157	1,546	(389)	(25%)

Novolipetsk Steel (NLMK)
Investor relations

Russia, 115054, Moscow
Bakhrushina str, 18, bldg 1

t. +7 495 915 15 75

f. +7 495 915 79 04

www.nlmk.com
