PRESENTATION OF THE FINANCIAL AND OPERATING RESULTS FOR THE FOURTH QUARTER OF 2009

TRANSCRIPT[1]

Novolipetsk Steel

Tuesday, 7th April 2010

14:00 Hrs UK time

Chaired by Anton Bazulev

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Anton Bazulev

Good morning, ladies and gentlemen. Welcome to the conference call. We are pleased to present our 2009 annual results today. The presentation is available on our website, NLMK.com, from where it can be downloaded. We start on page four. All the members of the team are here, Galina Aglyamova, Sergey Takhiev and Polina Minor, our interpreter. I will go through the major part of the presentation on your screen, and then we will use our translator to answer questions if required.

Today we would like to present our Q4 2009 and year 2009 results according to US GAAP financials. You see here that NLMK has a high level of production efficiency, a geographically diversified sales strategy and a balanced product mix. This allows us to adapt successfully to the changing environment, offsetting the slump in demand in some regional markets and niche products. In spite of the decline in global crude steel production in 2009 we increased our operating results and achieved record annual production and sales of 10.6 million tonnes. Our 2009 revenue amounted to USD6.1 billion. Annual operating profit was almost USD900 million and net income was USD215 million. FY2009 EBITDA totalled USD1.4 billion and the EBITDA margin reached 24% for the whole year increasing consecutively through the year from 15% in Q1 2009 to 29% in Q4 2009. Last year we retained our status as one of the world’s leading steel producers and achieved one of the highest margins.

We have low leverage - the company’s financial debt amounts to approximately USD2.5 billion, net debt as of 31 December was USD796 million with net debt to 12 months EBITDA ratio reaching 0.55x. Q4 EBITDA was USD528 million with a margin of 29%. Whilst the steel market was recovering from H2 2009, the company continued to implement its technical upgrade programme with a capex of USD1.1 billion. Our efficiency, vertical integration and tight controls over steel production costs has brought

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[1] This text represents only a part of the transcript of the presentation.

a record low slab cash cost of about USD220 per ton, a level that we haven't seen since 2007.

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Following the timely capacity contraction in early 2009 we re-launched idled facilities, reaching pre-crisis production levels in Q3. In Q4 the Lipetsk site was running at 99% capacity, long products at 75% and US based Beta Steel at well above 60% capacity utilisation. In 2010 we expect utilisation rates to recover gradually and we also expect the markets to rise gradually. We expect total crude steel production in 2010 to grow by 10% to 15% to at least 11.6 million tonnes.

Slide six.

Negative trends in our main consumer industries resulted in a slump in demand for some niche products, in particular high value added and transformer steel. The decline in value added products was entirely offset by increased sales of hot rolled, cold rolled and slab, the more common types of steel. As a result the share of high value added products was about 25%. In 2010 we expect to return to our regular sales levels and we expect our value added products share to grow. Sales increased by 3% year on year and share of export grew to 73% as a result of our intensified export activities and a slump in the Russian market during the first half of the year. Q4 is usually our weakest sales quarter and in 2009 they fell 12% to 2.8 million tonnes. However, transfer and dynamo steel sales during the same period increased by 22% and 31%.

Slide seven.

Export revenue was higher due to the increased level of export sales. Export increased its share to 63% of overall sales. The main markets included the Middle East, Turkey, South Eastern Asia and the EU. Despite enhanced export sales the Russian domestic market remains our top priority and in 2010 we intend to increase the share of domestic sales and revenue. Our sales increased gradually throughout the period. In Q4 sales reached USD1.8 billion and the share of high value products reached 38%.

Slide eight.

Vertical integration and tight cost control at all production stages make NLMK one of the leading global steelmakers in terms of production costs. Cash cost per tonne of slab in Q4 was USD240. The quarterly growth was primarily as a result of increased coal prices and rouble exchange rate movement. In 2009 cash cost per tonne of slab reached USD220 and that was similar to 2007 levels.

Slide nine.

Our profitability was pretty high in 2009. Through the year we improved our performance continuously and the EBITDA margin was 29% compared to 15% in Q1 2009. The Q4 2009 profitability improvement was reached primarily due to the operating performance of the steel, mining and coke-chemical segments which contributed most to the results.

Slide ten please.

Management put in considerable efforts to optimise the company's debt ratio and debt portfolio. In Q4 2009 NLMK placed two issues of three year Russian exchange traded bonds with record low coupon rates for the Russian market at the time of 10.75% and 9.75%. The funds obtained were directed towards the refinancing of our short term debt. As a result, as at 31 December 2009 NLMK's short term debt amounted to USD556 million with the major share of about USD400 million accounted for by the payments of the long term pre-export finance facility which was taken in 2008. The weighted average short term debt interest rate reduced from 11.2% to 3.4%. At the year end the Group had maintained a low level of debt with a comfortable maturity schedule and a strong liquidity position. Debt ratios are in line with covenants providing us with a sustainable safety margin. Our liquidity position allows us to continue the development of the company.

Capex programme, slide 11.

We are committed to investing in projects which generate long term shareholder value, independent of the market cycle and the state of the economy. These projects are based on stable fundamentals and a high return on investment. Our decision to continue investing into key projects in the crisis will allow us to obtain additional advantages during the global economic recovery. By 2012 our growth will result in a 40% steel capacity increase. In two years NLMK will be the biggest steel maker in Russia. In 2009 we continued to invest in the key projects which aim to expand the company's steelmaking capacity. We continued the construction of the blast furnace number seven with a total capacity of 3.4 million tonnes located at our Lipetsk plant. Currently 60% of that project is complete. The blast furnace will allow us to produce top quality products at lower cost and an average of a 3% to 4% improvement on the most efficient existing capacities will be achieved. The investment amounts to approximately USD1.1 billion with 60% of the investment so far complete. The launch of the blast furnace is scheduled for mid 2011. By 2012 we expect it to be running at a projected capacity of 3.4 million tonnes a year. The second important project is the expansion of BOF operations. Following its revamp the Lipetsk site steelmaking capacity will be over12.5 million tonnes a year. The project includes the construction of ladle furnaces and a vacuum degasser. This will allow for expanding our output as well as manufacturing new grades of steel. Our slab output will increase to 6.8 million with about 3 million tonnes supplied to the joint venture with Duferco as we expect. The third big cluster is our construction of the mini-mill for producing long products in the Kaluga region with a capacity of about 1.5 million tonnes of long steel. That product mix will include reinforced re-bar, beam, angle, and channel bar. Currently the Central European region is experiencing a long product deficit of 2.5 million tonnes. This will be covered by our supply. Moreover, the company actively invests in expanding the high value added products. A new hot dip galvanising line with a total annual capacity of 300,000 ton was tested in October. It will produce thin hot dipped galvanised steel that is unique for Russia. We intend to sell about half of our produce to the construction and machine building sectors. The remainder will be processed further at the colour coating facilities. Last year the company actually worked on installing a new coating line with a capacity of 200,000 tonnes to be launched in mid 2010 with investment of about 100 million. The project is coupled with the previous one and we will increase our level of high value added products in the market. Last year we continued the upgrade of our transformer steel production. By 2012 about 64,000 tonnes of high permeability transformer steel will be produced in our facilities. That will allow us to penetrate the market deeper and to improve supply to our regular and new customers. We are also revamping our rolling facilities and for HRC production we will add about 400,000 tonnes of capacity in the next three years. So, the hot-rolling capacity will rise to 5.7 million tonnes at our Lipetsk plant. At DanSteel we plan to increase our capacity by 70,000 tonnes to about 570,000 tonnes. We also revisited the project of investment into Zhernovskoye-1 coking coal field. Management is now actively looking at that project and is blueprinting the mine and the beneficiation facilities so we will make an announcement on the final decision shortly. Last year we also pre-launched a hot-rolling mill in our Berezovky plant operations with one million tonnes of re-bar capacity. After that we also continued to invest in our mining operations at Stoilensky GOK where we will increase our production to match increasing requirements of the expanding blast furnace operations.

On slide 12 we see that we are focusing exclusively on high performance businesses and NLMK aims to increase our high valued added steel output and product quality. Moreover NLMK is planning to consolidate its self sufficiency in raw materials and power resources further and develop its vertical integration. Mostly we see our own funds as a base for investment. Our operations generate a sustainable and important cash flow. Moreover we have about USD1.7 billion on the balance sheet in cash and short term investment which can also be invested into business development. In addition we have announced a programme to place three year exchange traded bonds for a total of USD50 billion Russian roubles or slightly above USD 1.6 billion. And we have already placed USD25 billion roubles in three-year exchange traded bonds at the moment.

Slide 13. Coal supplies. Our company is not integrated into coking coal mining and during last year’s recession this proved to be advantageous for us. During the first nine months of the year coking prices fell to about USD50 per tonne which allowed us to radically cut production costs in the weak market conditions and retain the status of one of the lowest cost producing steel makers in the world. You can note on the chart that historically our margins are higher when coking coal prices are also high. This is because of high coking coal price’s sensitivity to steel prices. This sensitivity is coupled with a higher level of vertical integration into iron ore which we produce at a cost of about USD16 to USD18 per tonne. That allows the Group to compensate for high coking coal prices and to increase profit margins when iron ore prices are high. Furthermore, in the improved market environment our company is increasing the share of high value added products that also help to protect the company’s margins from the increasing raw material prices. We can also hedge our lack of exposure to coking coal by selling coke produced at our coke assets to third parties. We now have a surplus of about three million tonnes of coking capacity. In the high market environment we are active sellers of coke to third parties. Currently the company has the option to continue purchasing coal from third parties. We also may consider the possibility of acquisitions of high quality Russian assets; however, currently we are not close to an acquisition so we are in the process of exploring the possibilities.

For the outlook, ladies and gentlemen, we would reiterate that we are confident that the prices for steel will rise this year compared to the year 2009 and we expect our production also to gain about 10%, maybe 15% in volume, so we expect roughly 20% to 25% increase of annual price and for us it will signify a stable and increasing level of profitability. In Q1 2010 steel production will be about USD2.8 million and the EBITDA margin will be above 20% while demand increase in niche products including transformer and pre-painted steel may drive the margins further. With this I will conclude the presentation and give the floor for your questions. Thank you.

Questions and Answers

Yuri Vlasov – JPM, Moscow

Good evening, Anton, and congratulations on the very good results. A very quick question from me. I see that within the next two to three years you're thinking of expanding your crude steel capacities in Russia at the Lipetsk site. What's going to be the future of your steel making capacities in Europe at Carsid? I know that you have to keep it for some time because you cannot close this straight away but if things are going to go the way they're going now would you consider moving out of steel production in Europe?

Okay, Galina Aglyamova will answer the question.

Galina Aglyamova

We do not expect to activate our steel making capacities in Belgium with the joint venture at least until the end of the current year. We might change our decision if slab prices mean that our Belgian asset would produce stable profits from sales of semi-finished products.

Thank you, the next question please.

Veronica Lyssogorskdya – HSBC, London

Good afternoon ladies and gentlemen. I have a couple of questions. First of all regarding the Duferco joint venture. I noticed that in your P&L that you have recorded 29 million in positive equity from associates. Can you please comment on whether they have actually turned profitable or if it's just some revaluation gain. Also, can you please comment, hopefully you can comment on this, what are your plans regarding the option and have you already discussed it with the other party? What are their plans because I understand that they also have a right to sell their stakeholder to you since December? Thirdly, can you please give us some forecast on the coking-coal price dynamics, what are you looking for in Q2? And finally, can you give us some comment on domestic demand, where do *you see the most upside and how do you see it developing at the moment? Thank you very much.*

Galina Aglyamova

The joint venture performance for Q4 2009 was better than in the first half of 2009 due to the fact that inventory revaluation losses mainly impacted the first quarter. And since inventory revaluation stopped impacting the results of the joint ventures, the JV is now operating at a low profitability level.

Anton Bazulev

This is Anton Bazulev; I will answer the question from the stock on the option. According to the agreement we have an option to buy and the shareholders have the option to sell its stake in the joint venture from any time after the middle of December 2010. So, the decision is to be taken on put and call options by the parties after that date and the decision can be taken at any time after that date. This is the agreement as it stands and now we have the current situation.

Okay, so you can't really comment on what your plans are regarding that?

We will be able to comment further closer to the time.

Okay, thank you.

And coking-coal. Can you repeat the question please?

Well, the question was how do you see the dynamic of coking-coal prices in the domestic market and what are you looking for in Q2?

We think that in Q2 2010 relatively higher prices for high quality grades of coking-coal are possible. That's why we have concluded contracts for supplying especially high quality grades of coal on import. In 2010 we're going to acquire 600,000 tonnes of high quality coking-coal.

Can you give us a benchmark price then?

The price is fixed till the end of 2010.

We see some improvement on the domestic market starting at the end of Q1 2010when restocking has taken place and there is preparation for the construction season. We see some stabilization in housing and in commercial, residential and non residential construction and in the automotive industry some 8% to 10% growth is reported. In machinery and building the statistics are showing about 4% to 5% growth for the first three months of the year. Also, white goods, electric equipment and the pipe industry may be gaining from an improved environment. Russian prices appear to be following international benchmarks. There is high demand, particularly for our quality products in flat segments and we believe that the second quarter will be strong. However, the level of consumption in Russia will lag, and for us to it will be two to three years before we reach 2008 levels of above 35 million tonnes a year of consumption. This year the level this year could reach above 27 million tonnes. Is that okay?

Yes, thank you very much.

Thank you.

Closing Comments

Okay, if there are no more questions, ladies and gentlemen, let me conclude this conference call and thank you for your attention, for your patience and thank you for your interest in our company. We will be happy to welcome you on our next conference calls. Thank you very much, a good day to you.