



Novolipetsk Steel (NLMK)

VIZ Stal Acquisition

September, 2006

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Agenda

- **Transaction summary**
- Company profile
- Market outlook
- Strategic component

Executive summary

Novolipetsk Steel (NLMK) acquired 100% interest in VIZ Stal, the second largest Russian electrical steel producer.

- **Transaction price is USD 550 million**

- ▶ Acquired interest – 100%
- ▶ Source of financing – 100 % from NLMK's existing cash funds
- ▶ Estimated synergetic effect – USD 180.0 million

- **VIZ Stal financial performance: 2005***

- ▶ Sales revenue – USD 360.5 mln
- ▶ Gross profit – USD 130.6 mln
- ▶ Gross profit margin – 36.2%

- **VIZ Stal to be consolidated by NLMK from mid-August, 2006.**

- **Seller – Vetrade (Holdings) Limited (Cyprus)**



* - the RAS (Russian Accounting Standards) financial results

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Company profile

VIZ Stal is one of the largest world producers of grain-oriented and non-grain-oriented steels

● HISTORY

- ▶ VIZ Stal was founded in 1998 on production facilities of OJSC Verh-Isetsky zavod
- ▶ Located in Yekaterinburg, Russia

● FACILITIES

- ▶ The Company has rolling facilities for grain and non-grain-oriented steel production. Annual capacity as of H1 2006:
 - 180,000 t/y of NG steel;
 - 168,000 t/y of NGO steel.

● MARKET POSITION

- ▶ VIZ Stal is the largest producer of grain-oriented steel in Russia:
 - 11% share of global market;
 - 56% share of domestic market.

● PRODUCTION PROCESS

- ▶ The Company produces CR electrical steel sheet from purchased HR coils. Since 2006 the main supplier of HR coils is NLMK.
- ▶ Production process: two stages of cold rolling, annealing and coating.
- ▶ Finished product – CR electrical steel coils. Customer base – producers of electrical equipment.

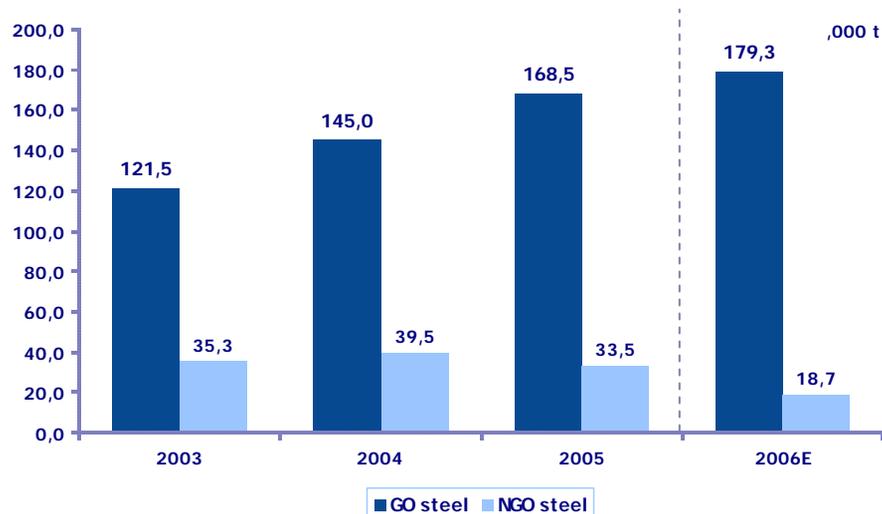


Production results

VIZ Stal is on of the five world largest grain-oriented steel producers

In 2006 grain-oriented steel production is expected to increase (+6% YoY).

PRODUCTION VOLUMES, 2003-2006



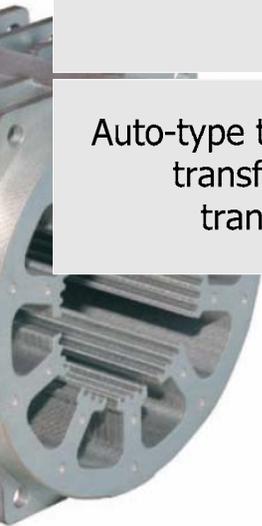
#	Company	Country	Capacity, ,000 t
1	Nippon Steel	Japan	240
2	Thyssen Krupp	Germany	240
3	AK Steel	USA	220
4	VIZ Stal¹	Russia	180
5	Wuhan	China	180
6	JFE	Japan	150
7	NLMK	Russia	140
8	Allegheny	USA	120
9	POSCO	S.Korea	100
Others			200
Total			1,770

¹ VIZ-Stal is the largest producer of grain-oriented steel and the second largest electrical steel producer in Russia.



Range of electrical steel application

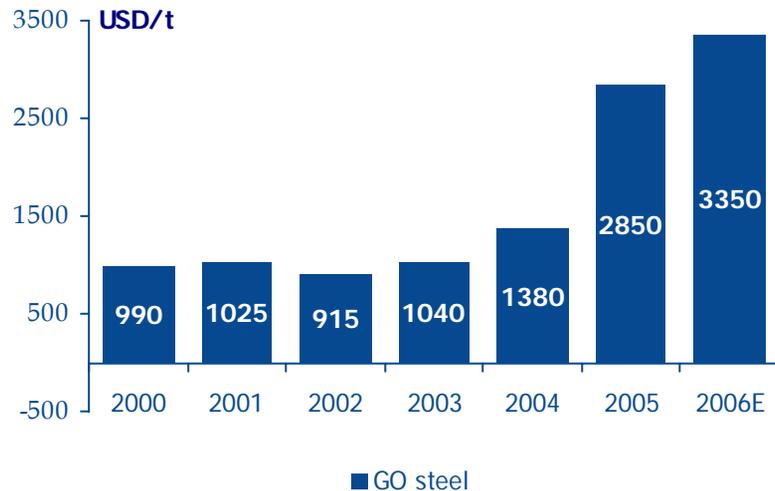
Grain-oriented steel	NGO/GO steels application	Non-grain-oriented steel
Power transformers	Welding, heat-treatment equipment	Engines, generators and over frequency and high frequency converters
Distributing transformers	Large hydro- and turbine generators, high-power engines	Engines for household appliances (fridges, air-conditioners, fans, pumps)
Auto-type transformers, current transformers, voltage transformers, etc.	High-voltage, low-voltage equipment	Induction motors with capacity up to 400 kW
	Radio transformers, radio chokes	Relays, DC magnetic poles, counterweights, etc.



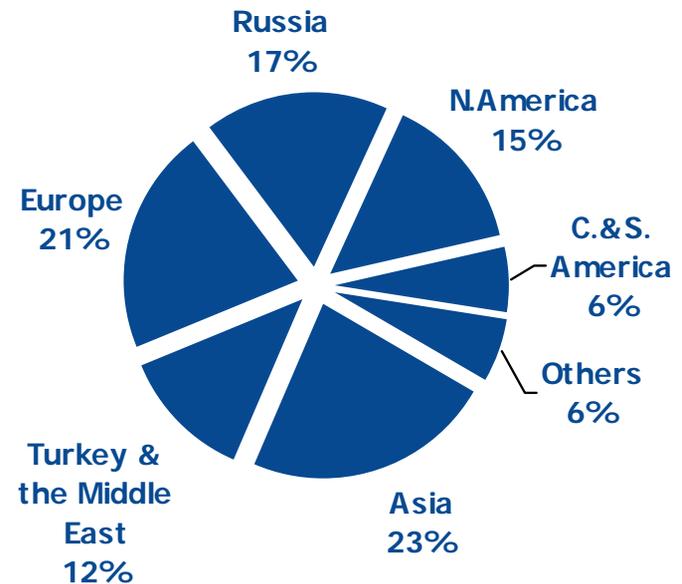
Sales strategy

- Favorable geographic location including access to the rapidly growing Chinese market.
- VIZ Stal's sales are well diversified with exports to 46 countries.
- Despite the growth of grain-oriented steel production, the market has been in deficit since 2004 and world prices have doubled.

PRICE DEVELOPMENT FOR GRAIN-ORIENTED STEEL*



SALES GEOGRAPHY, 2005**



*- UN Comtrade, companies data

** - Includes both grain-oriented and non-grain-oriented steel sales

VIZ Stal financial results

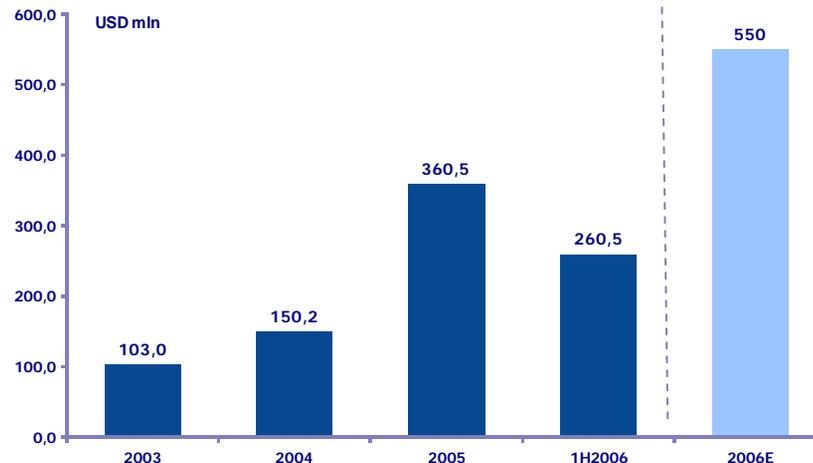
KEY RESULTS 2005

- ▶ SALES REVENUE – USD 360.5 million (2.4 times increase comparing with 2004)
- ▶ GROSS PROFIT – USD 130.6 million
- ▶ ROE - 77 %
- ▶ CAPEX - USD 10.2 million
- ▶ NET DEBT – compared to 2004 reduced by 70% down to USD 26 million

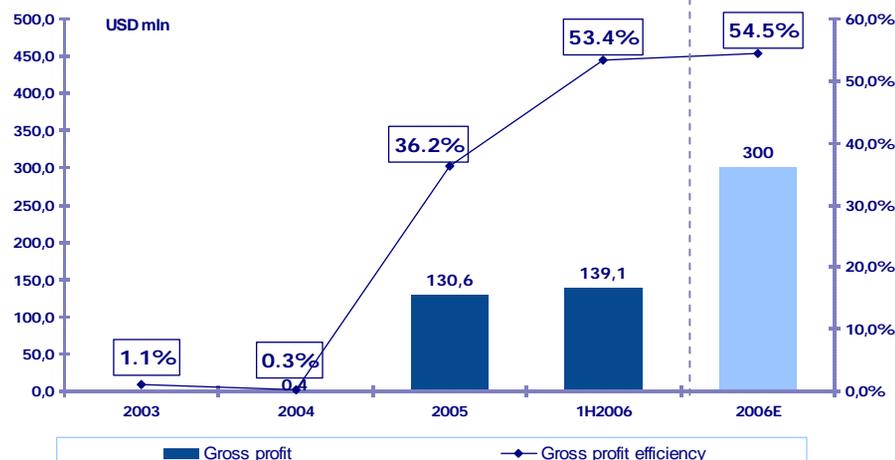
KEY RESULTS 2006E

- ▶ SALES REVENUE – USD 550.0 million
- ▶ EBITDA – USD 300.0 million

SALES REVENUE



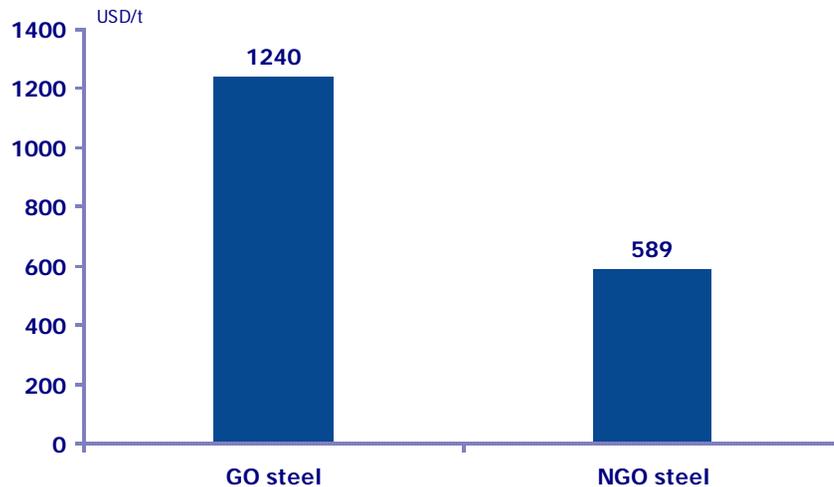
GROSS PROFIT



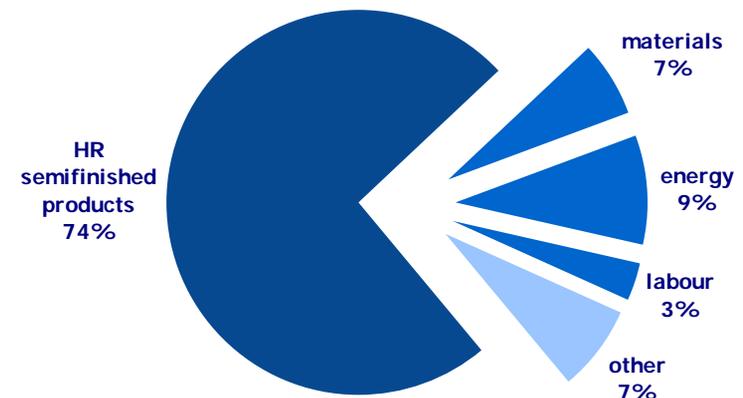
Production cost base

H1 2006 COSTS

PRODUCTION COSTS



COST STRUCTURE
(GRAIN ORIENTED STEEL)



Key factors as a result of the acquisition:

- Hot rolled coils supplied by NLMK represent an overwhelming part of production costs
- Enhance R&D activities
- Joint sales and logistics structure result in SG&A expenses reduction.



Competitive advantages

UNIQUE PRODUCT

Among the world's largest producers of R&D intensive products.
Substantial R&D costs create barriers to entering the market.

DIVERSIFIED SALES GEOGRAPHY

In 2005 VIZ Stal products were exported to 46 countries.
Considerable presence in growth markets.

STABLE FINANCIAL POSITION

Grain-oriented steel is a high value-added product.
FY 2005 Gross profit - USD 130.6 million.
H1 06 Gross profit - USD 139.1 million.



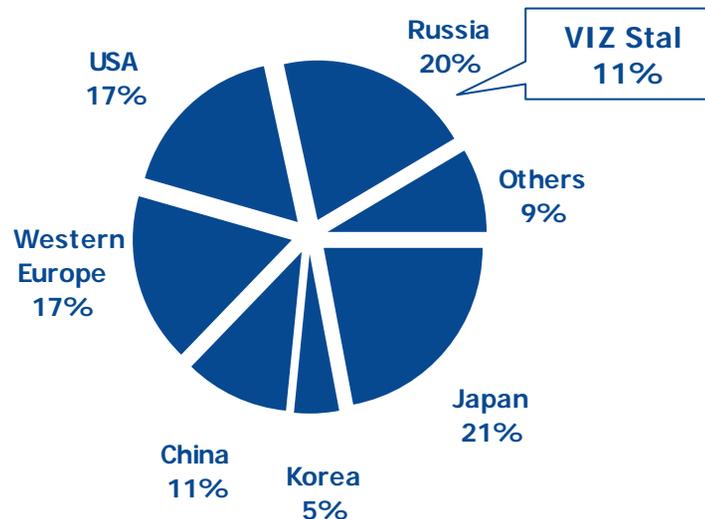
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- Strategic component

Market outlook

- In 2006 the world production volume of electrical steel will amount to 8.5 million tonnes including 1.8 million tonnes of grain oriented steel.
- At present, 55% of the world facilities for electrical steel production are controlled by 13 major steel companies.
- Electrical steel production for the period of 2005-2006 increased by 18%, while grain oriented steel production increased by 48%.

PRODUCTION OF GRAIN-ORIENTED STEEL



Market outlook

In 2006, global capacity of grain oriented steel production is 1.8 mln tonnes; expected to grow to 2.2-2.3 mln tonnes by 2015.

DEMAND GROWTH

- ▶ According to US Department of Energy forecasts, in the nearest 10 years power consumption will increase by more than 30% and it will result in grain oriented steel consumption growth by 41% in 2015.

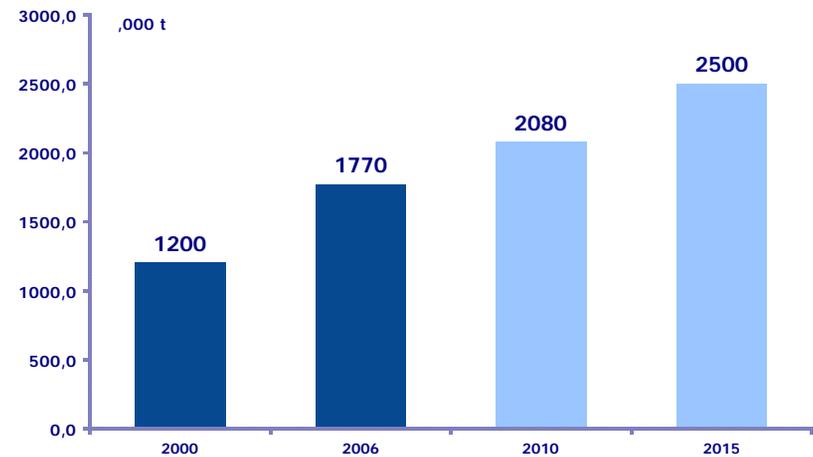
CHINA

- ▶ Since 2002 China develops a programme aimed at increase of industrial power savings through phasing-out obsolete equipment and building unified power grid.

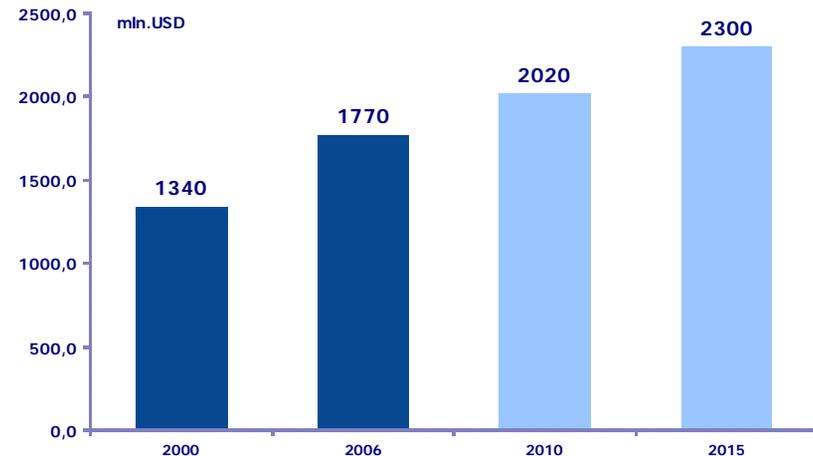
FACILITIES

- ▶ New facilities to be commissioned, around 2/3 of this growth is expected to be in China. According to analysts estimates, no oversupply at GO steel market is envisaged.

DEMAND FOR GRAIN ORIENTED STEEL



GRAIN ORIENTED STEEL PRODUCTION



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Strategic objective

● **The acquisition of VIZ Stal advances NLMK's stated growth strategy**

- ▶ Acquisition of high quality rolling facilities for the development of high value-added product portfolio.
- ▶ Increasing profitability and improving EBITDA margin through the acquisition of assets with a competitive cost production structure.
- ▶ Strengthening of NLMK's leadership in flat steel products in Russia and its core export markets.

● **Strategic results**

- ▶ Position of one of the largest grain-oriented steel producers in the world with annual output of 320,000 tonnes. NLMK controls 18-20% share of the world grain-oriented steel market.
- ▶ NLMK and VIZ Stal combine R&D efforts in the field of upgrading production technology and raising product quality.
- ▶ Substantial synergy benefits are gained through the supply of hot-rolled coils produced at NLMK's facilities in Lipetsk to VIZ Stal.

Synergetic benefits

OPTIMIZATION OF LOGISTICS

USD 32 mln

- ▶ Reduce transportation costs for rolled products
- ▶ Increase sales efficiency

HOT-ROLLED COILS SUPPLY

USD 91 mln

- ▶ Enhance portfolio of VIZ Stal products
- ▶ Guarantee well-balanced utilization of production facilities
- ▶ Raise sales revenue margin

TECHNOLOGY DEVELOPMENT

USD 56 mln

- ▶ Combine expertise to upgrade production technology of electrical steel
- ▶ Joint R&D efforts result in costs decrease for implementing new technologies and developing product range

KEY ELEMENTS OF VIZ STAL DEVELOPMENT PROGRAMME

● OPTIMIZATION OF HOT-ROLLED COILS SUPPLY

- ▶ Development of supplied product range and quality improvement

● GRAIN-ORIENTED STEEL PRODUCTION INCREASE

- ▶ The increase is balanced in accordance with global demand growth

● PRODUCT QUALITY IMPROVEMENT

- ▶ To achieve the level of leading electrical steel producers

● PRODUCT RANGE UPGRADING

- ▶ To develop product portfolio in accordance with customers' requirements.