



Novolipetsk Steel (NLMK)

Sustainable Growth Strategy

Dr. Vladimir Lisin, Chairman

UBS Conference "Russia: Energizing the World"
14 September 2006



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Agenda

- **Strategic Objectives 2005-2006**
- Sustainable Growth Strategy 2007-2011
- Q&A

2004-2005: Capital markets strategy

- Corporate governance improvements ✓
- Management system optimization ✓
- Non-core assets disposal ✓
- Progressive dividend policy ✓
- Russian listing ✓
- International listing and IPO ✓



UBS Conference (September 2004)
Presentation by Dr. Vladimir Lisin,
Chairman of NLMK Board



2005-2006: IPO commitments

	Objective	Commitment delivery
1	Upstream expansion	<ul style="list-style-type: none">● Stoilensky GOK – 100% self-sufficiency in iron ore concentrate● Disposal of KMA Ruda – unlocked value USD 300 million● Zhernovskoe-1 and Prokopievskugol – 50% self-sufficiency in coking coal● Altai-koks – coke market entry
2	Downstream integration	<ul style="list-style-type: none">● DanSteel A/S – 500K tpy rolled products sales increase● VIZ Stal – 200K tpy rolled products sales increase
3	Phase 1 Technical Upgrading Program	<ul style="list-style-type: none">● Total investment – USD 1.3 billion● Achieved IRR on investment over 35%
4	Stringent cost management	<ul style="list-style-type: none">● Slab production costs reduction in 1H 2006 -9% YoY

Objective 1: Upstream expansion

Altai-koks and Prokopievskugol acquisition:

- Assets acquired to achieve 100% self-sufficiency in coking coal and coke
- Acquisition value USD 650 mln
- Largest Russian non-integrated producer: 85% of free market
- Key features:
 - ▶ Optimal combination of coal grades from Zhernovskoe-1 and Prokopievskugol to produce high-quality coke
 - ▶ Significant synergies between Altai-koks, Prokopievskugol and Zhernovskoe-1 deposit



Altai-koks key figures:

- ▶ Production 3.9 mln t (5 mln tpy by 2007)
- ▶ 2006E revenue: USD 400 mln
- ▶ 2006E EBITDA: USD 45 mln

Prokopievskugol key figures:

- ▶ Reserves: 200 mln t of coal¹
- ▶ Coking coal concentrate: 3 mln tpy
- ▶ Steam coal: 1 mln tpy

1. Existing and projected horizons (unaudited)

Objective 1: Upstream expansion (cont.)

Sale of KMA Ruda:

- Optimization of the assets structure; unlocking value of non-strategic asset
- Transaction value: USD 300 mln
- The transaction is to be completed in Q3 2006
- Key features:
 - ▶ Proceeds from the disposal are invested in the development program of Stoilensky GOK



Stoilensky GOK key figures:

- ▶ Reserves: 5 bln tonnes ¹
- ▶ Iron ore concentrate production: 11.0 mln tpy
- ▶ 2006E revenue: USD 564 mln
- ▶ 2006E EBITDA: USD 340 mln

Objective 2: Downstream integration

DanSteel A/S acquisition:

- Transaction is in line with the strategy of acquiring rolling facilities in core markets and developing high value-added product portfolio
- Transaction value: USD 104 mln
- Key features:
 - ▶ 100% supply of slabs from NLMK



DanSteel A/S key figures:

- ▶ Hot rolled heavy plates production: 0.5 mln tpy
- ▶ 2006E revenue: USD 360 mln
- ▶ 2006E EBITDA: USD 50 mln

Objective 2: Downstream integration (cont.)

VIZ Stal acquisition:

- Transaction is in line with the strategy of acquiring rolling facilities in core markets and developing high value-added product portfolio
- Transaction value: USD 550 mln
- Synergy effect (R&D, supply of HR coils, logistics): USD 180 mln
- Key features:
 - ▶ NLMK gains control over 20% of global grain-oriented steel market



VIZ Stal key figures:

- ▶ Grain-oriented steel production: 0.18 mln tpy
- ▶ 2006E revenue: USD 550 mln
- ▶ 2006E EBITDA: USD 300 mln

Objective 3: Phase 1 Technical Upgrading Program

NLMK has completed the first phase of the Technical Upgrading Program (2000 to 2005) committing total investments of USD1.3 billion.

● The following objectives were accomplished:

- ▶ Increase in crude steel production from 8.2 mln tpy to 9.1 mln
- ▶ High value-added products growth 34%
- ▶ Quality improvements
- ▶ Unit costs reduction: coke, energy, flux, auxiliary materials
- ▶ Achieved 38% energy self-sufficiency

● Phase 1 Technical Upgrading Program key figures:

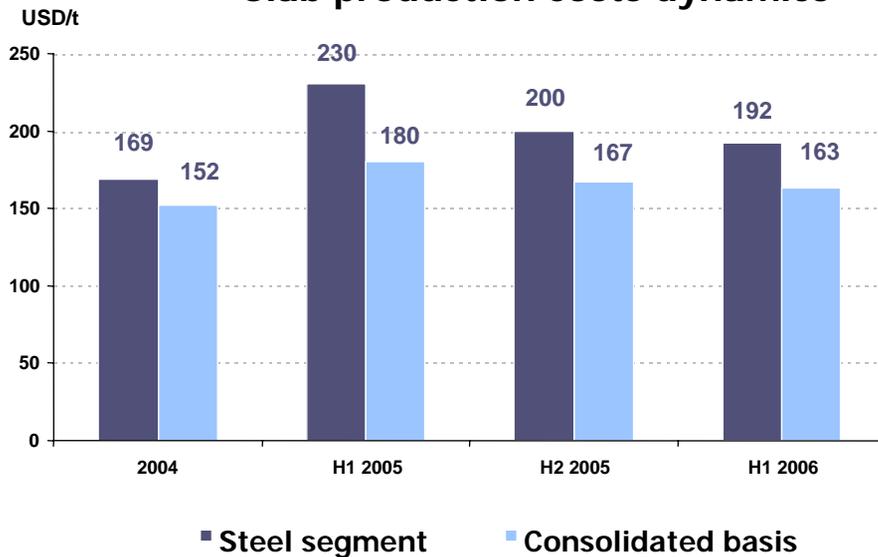
- ▶ Total investment: USD 1.3 billion
- ▶ Achieved IRR on investment: over 35%



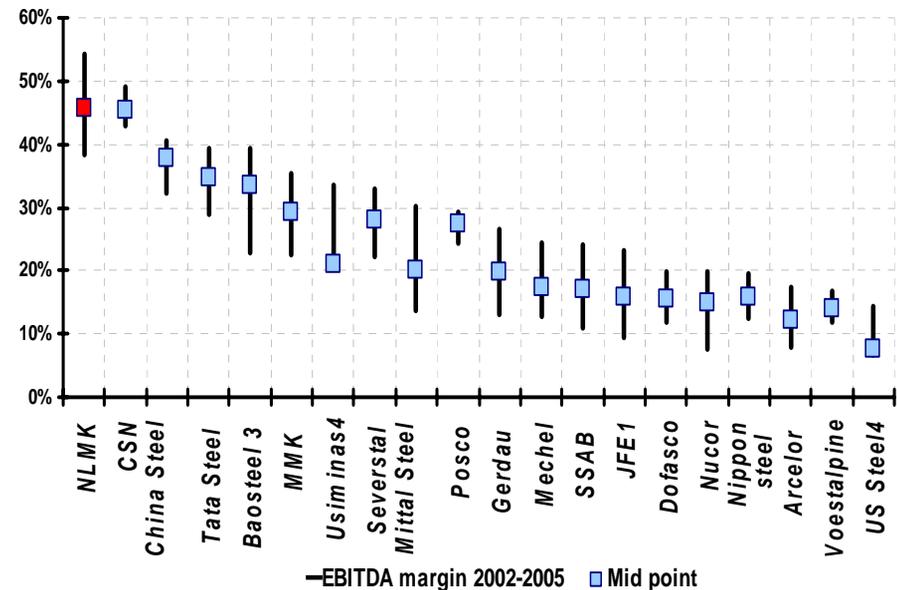
Objective 4: Stringent cost management

- Slab production costs reduction in 1H 2006 -9% YoY
- Factors contributed to costs reduction:
 - ▶ upstream assets consolidation
 - ▶ growth of production volume
 - ▶ decrease in maintenance capex in 1H 2006

Slab production costs dynamics



EBITDA margin 2002-2005¹



1. Company estimates

Agenda

- Strategic Objectives (2005-2006)
- Sustainable Growth Strategy (2007-2011)
- Q&A

Strategic objectives 2007-2011

- 
- To increase crude steel production by 40% to 12.4 mln tpy
 - To achieve 100% self-sufficiency in major raw materials covering the projected increase in steel production
 - ▶ To increase iron ore concentrate production by 20%
 - ▶ To double coal production volume
 - To increase production of finished flat steel products by 90% to 9.5 million tpy reducing earnings volatility
 - To achieve 47% EBITDA growth over the 5-year period

Core growth: increase in liquid steel production...



Crude steel objectives:

- Total investments: USD 2.4 bln
- Growth of production: 3.4 mln
- Contribution to EBITDA increase: 15%

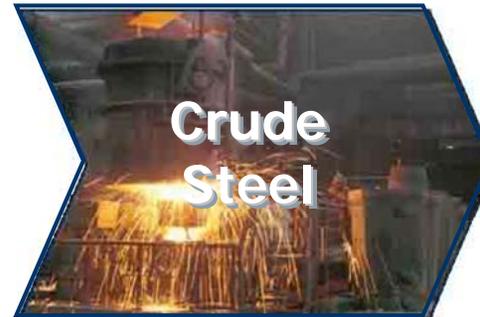


- **To increase crude steel production to 12.4 mln tpy**
- **Quality improvements: boost share of vacuum degassed steel to 50% of total volume**
- **Phase 2 of the Technical Upgrading Program includes following key projects:**
 - ▶ Construction of new Blast furnace #7
 - ▶ Renovation of 3 out of 5 existing blast furnaces
 - ▶ Renovation of Basic Oxygen Furnace Shops
 - ▶ Increase of energy self-sufficiency from 38% to 60%

Core growth... supported by raw materials self-sufficiency

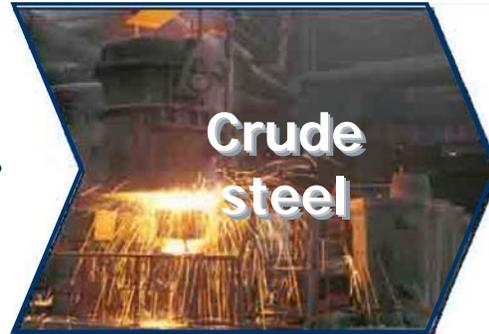
Raw materials objectives :

- Investments: USD 1.1 bln
- Coal production growth: 5 mln t
- Coke production growth: 1 mln t
- Iron ore concentrate production growth: 2.5 mln t
- EBITDA increase: 16%



Key inputs	2011E production (mln tpy)	Change	Investments (E) (USD mln)
Iron ore concentrate			
▶ production	15.0	+20%	245.0
▶ sales	11.6		
Pellets	3.0	+100%	280.0
Coking coal concentrate	8.1	+200%	511.0

Core growth... balanced by rolled products output increase



Flat rolled steel objectives:

- Investment: USD 0.9 bln (excluding M&A)
- Growth of rolled sheet production: 4.5 mln tonnes
- EBITDA increase: 29%

Slabs output (E)

12.4 mln tonnes

Lipetsk rolling facilities

5.9 mln t

DanSteel A/S

0.7 mln t

Upcoming acquisitions

3.5 mln t

External sales

2.3 mln t

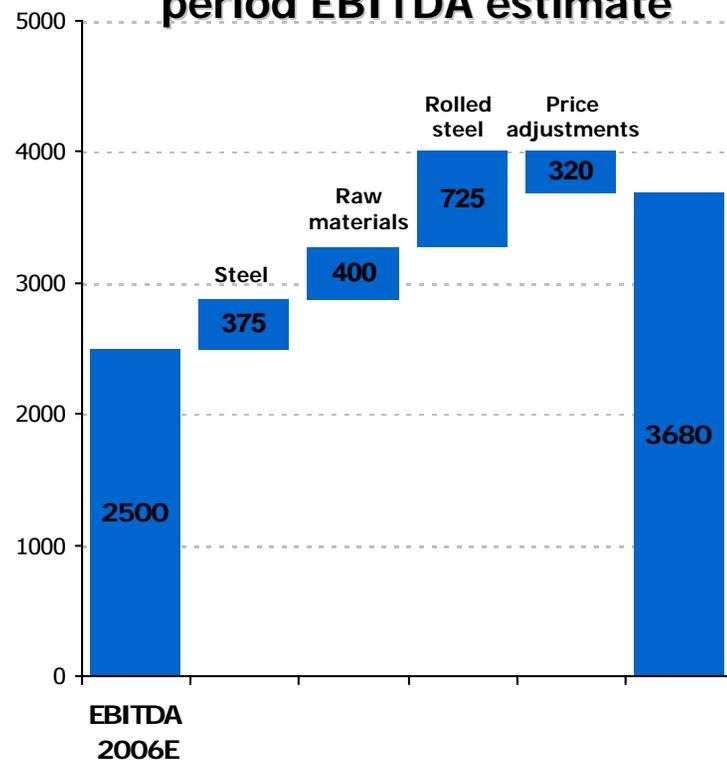
NLMK in 5 years



Key performance indicators:

- ▶ Steel production: 12.4 mln tpy
- ▶ Rolled steel production: 9.5 mln t, including 3.5 mln tonnes on acquired facilities
- ▶ 100% self-sufficiency in raw materials
- ▶ Full compliance to international quality standards
- ▶ Leadership positions in strategic markets
- ▶ Average normalized over the 5-year period EBITDA: USD 3.7 billion

Normalized over the 5-year period EBITDA estimate





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