



Novolipetsk Steel (NLMK)

Analyst Presentation

September 19, 2006

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Agenda

- **Strategic Objectives 2005-2006**
- H1 2006 Financial Results
- Sustainable Growth Strategy 2007-2011
- Q&A

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 – current 50% self-sufficiency in coking coal (100% by 2009)● 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 coke**
- **Acquisition value USD 650 mln**
- **Asset consolidated since April 1st 2006**
- **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 coal (130 mln t of coking grades)¹**
- ▶ **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



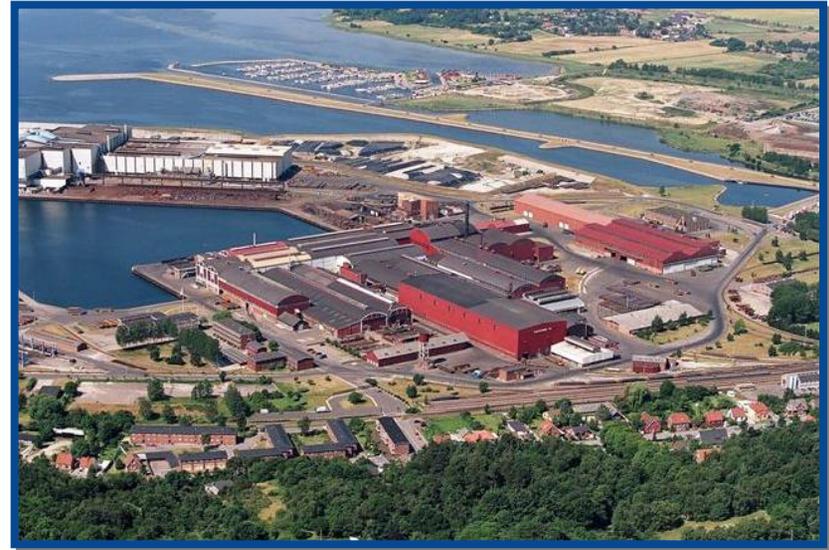
Stoilensky GOK key figures:

- ▶ Reserves: 5 bln tonnes ¹
- ▶ Iron ore concentrate production: 11.0 mln tpy
- ▶ 2006E revenue: USD 564 mln
- ▶ 2006E EBITDA: USD 340 mln
- ▶ H1 2006 production cost of 1 t of iron-ore concentrate is USD 13.8

Objective 2: Downstream integration

DanSteel A/S acquisition:

- Transaction is in line with the strategy of acquiring rolling facilities in core markets and developing finished product portfolio
- Transaction value: USD 104 mln
- Asset consolidated since December 2005
- Key features:
 - ▶ 100% supply of slabs from NLMK
 - ▶ Dansteel customer base is concentrated in the construction and shipbuilding industries



DanSteel A/S key figures:

- ▶ Hot rolled heavy plates production: 0.5 mln tpy
- ▶ 2006E revenue: USD 360 mln
- ▶ 2006E EBITDA: USD 50 mln
- ▶ EU countries comprise 93% of export sales
- ▶ Investments in upgrading program for 2006 – USD 18 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
- Asset consolidated since mid-August 2006
- Synergy effect estimate (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
- ▶ VIZ Stal's market share of grain-oriented steel:
 - 11% share of global market;
 - 56% share of domestic market.

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%



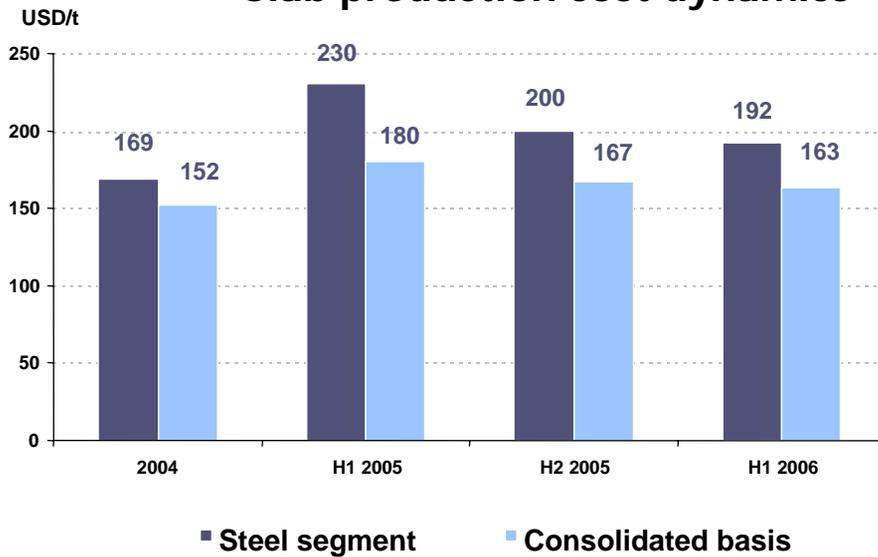
Objective 4: Stringent cost management

- Slab production costs reduction in H1 2006 -9% YoY

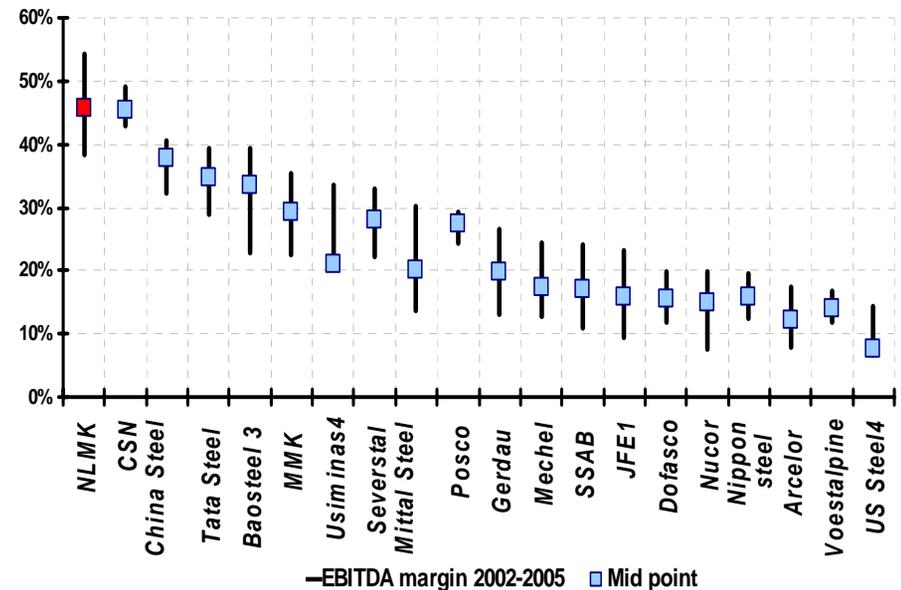
- Factors contributed to costs reduction:

- ▶ upstream assets consolidation
- ▶ growth of production volume
- ▶ decrease in maintenance costs in H1 2006

Slab production cost dynamics



EBITDA margin 2002-2005¹



1. Company estimates

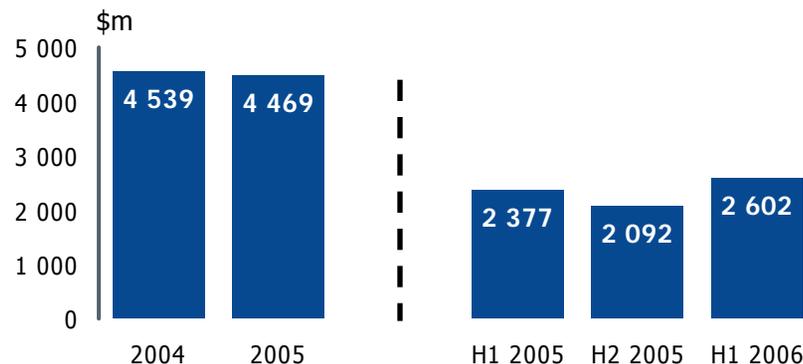
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- Strategic Objectives 2005-2006
- **H1 2006 Financial Results**
- Sustainable Growth Strategy 2007-2011
- Q&A

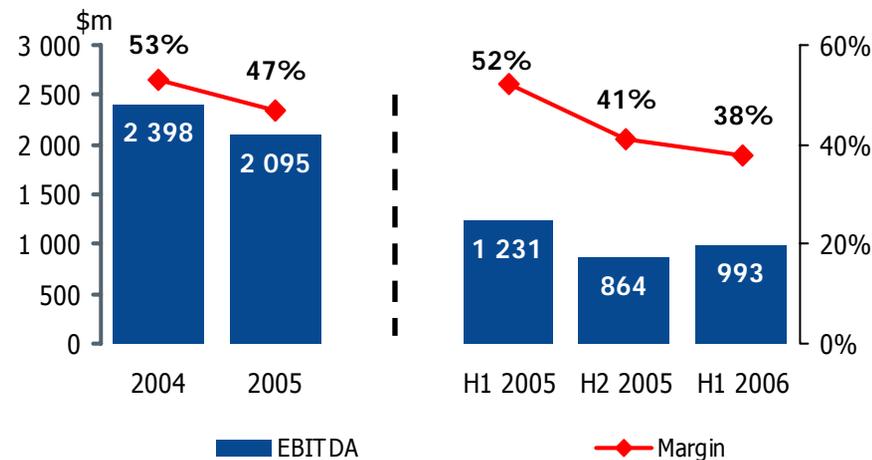
H1 2006 Highlights

- Sales revenue of USD 2.6 bln
- Operating cash flow of USD 527.8 mln
- ROE of 34%
- EBITDA of USD 993 mln, margin of 38%
- Cash and cash equivalents of USD 1.4 bln as at June 30, 2006

Sales revenue¹



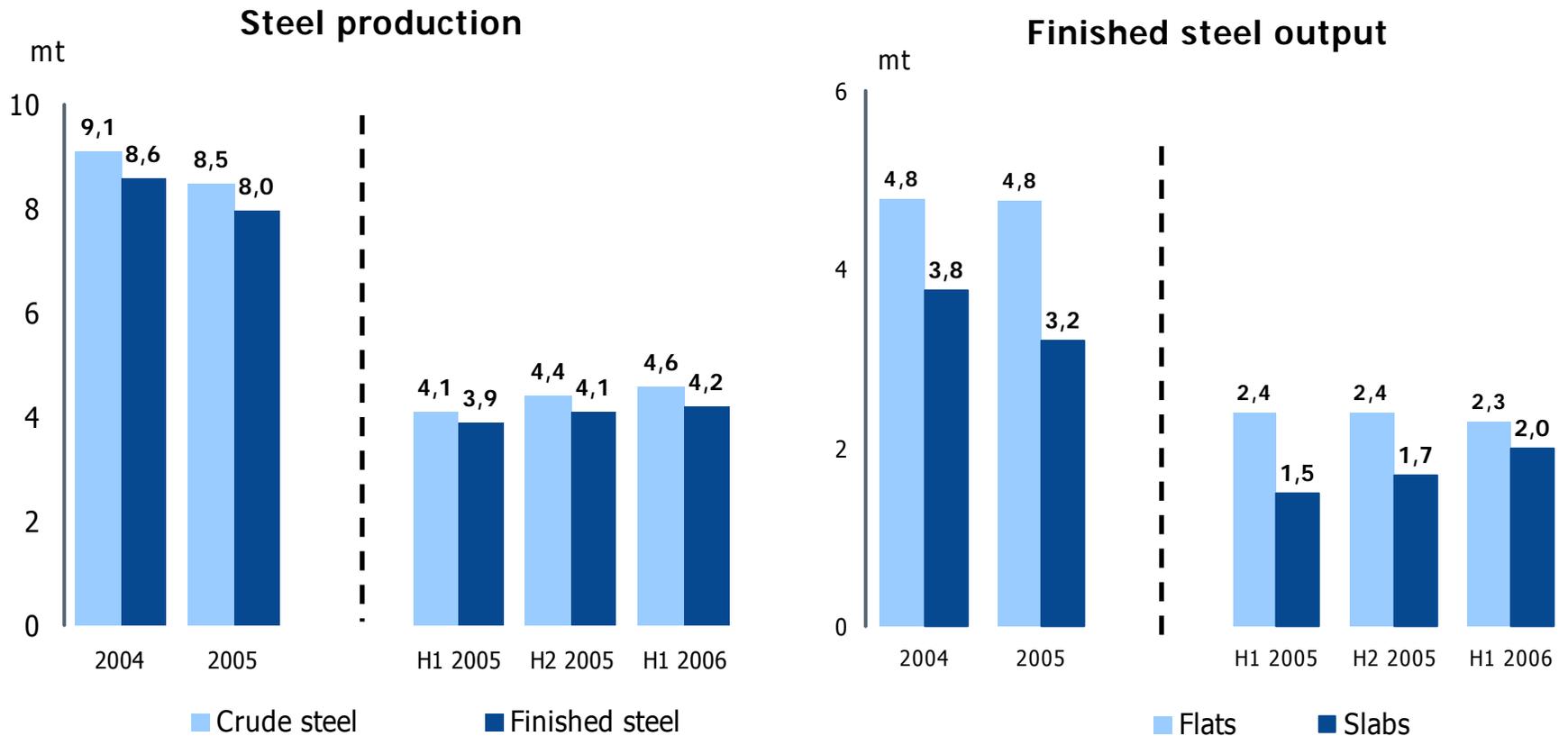
EBITDA^{1,2}



¹ without considering DanSteel A/S consolidation in December 2005

² EBITDA is calculated as the sum total of net profit, net interest expense, income tax, loss on disposal of fixed assets, depreciation and amortization and stock-based compensation (without gain/ (loss) on investments).

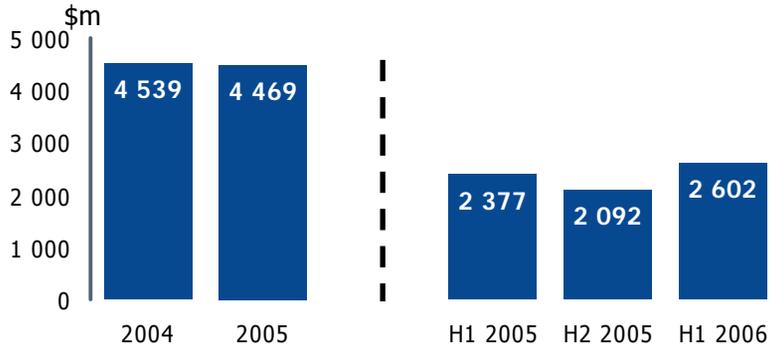
Stable production profile



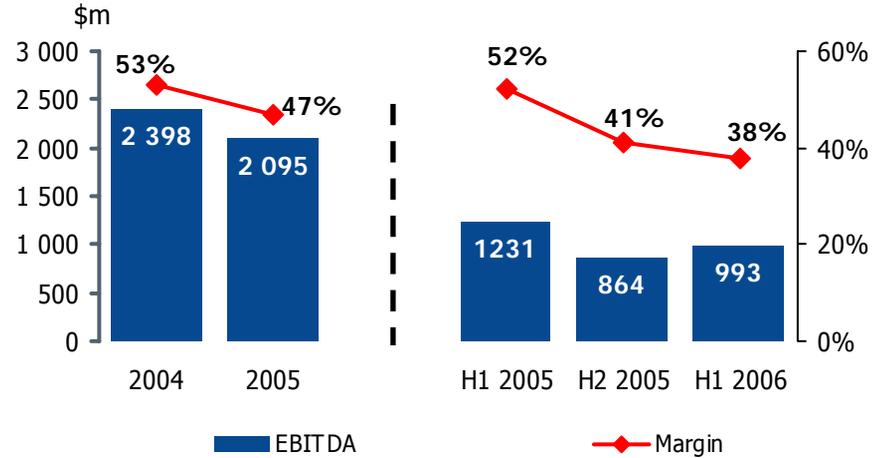
H1 2006 production results demonstrate Company's firm commitment to return to 2004 production levels

Continuously strong financial performance

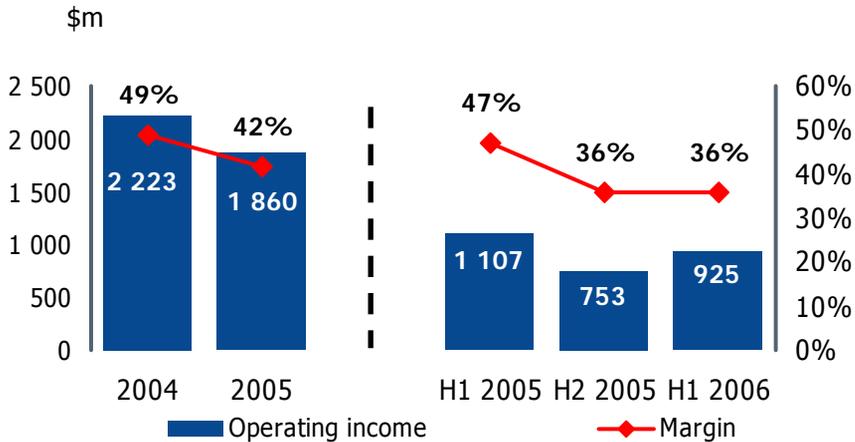
Revenue²



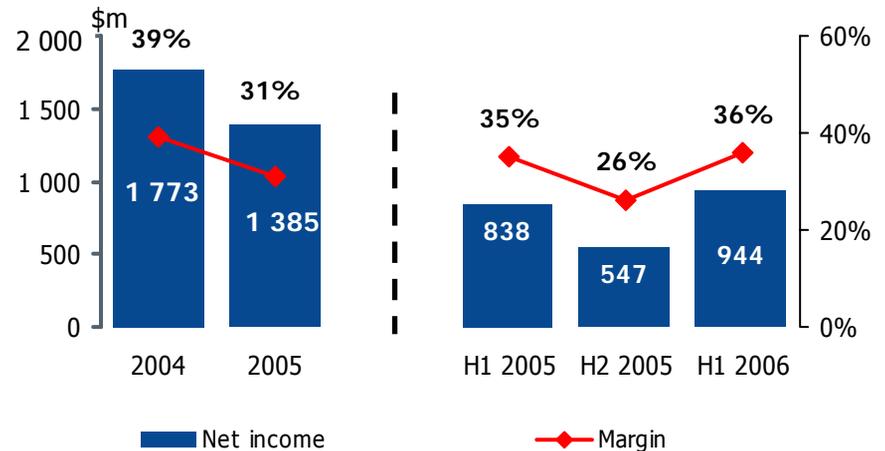
EBITDA^{1,2}



Operating income²



Net income²



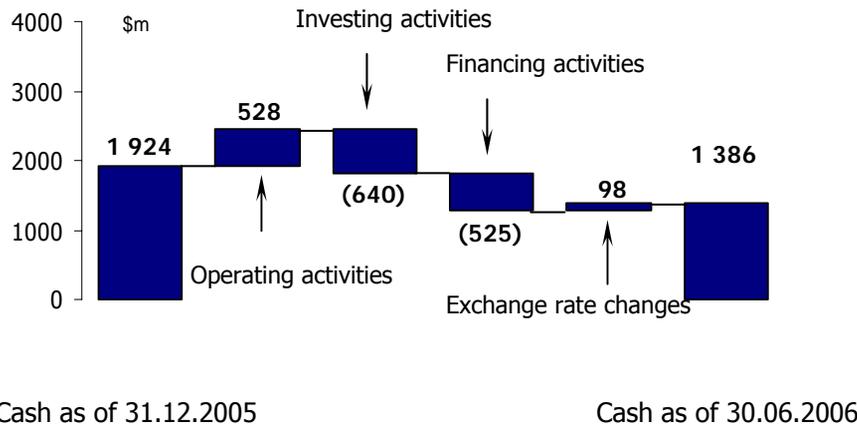
Note:

1 EBITDA represents net income, including non-recurring items, before net interest expense, income taxes, loss on disposal of property, plant and equipment and depreciation and amortization, gains (losses) on investments
2 without considering DanSteel A/S consolidation in December 2005

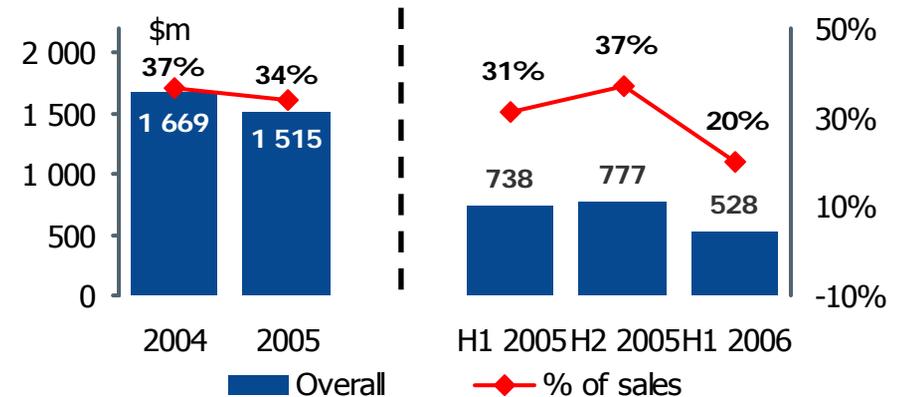


Cash flows

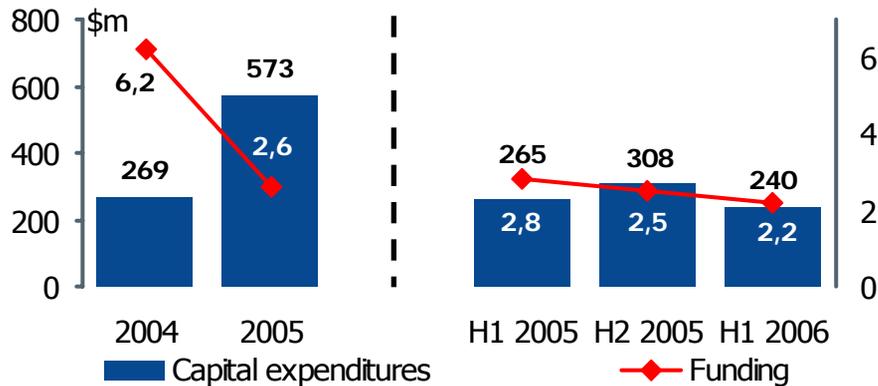
1H 2006 Cash flow



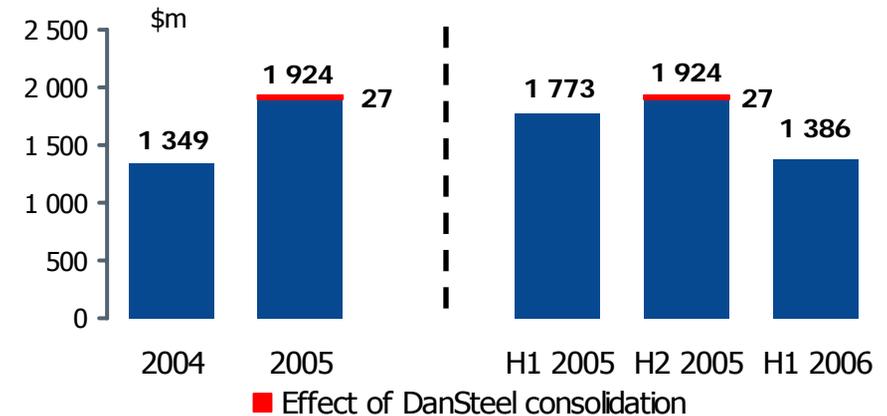
Operating cash flows²



Capital expenditures cover^{1,2}



Cash and cash equivalents



Note:

1 Capex cover = Cash flow from operating activities/Purchases and construction of property, plant and equipment

2 Without considering DanSteel A/S consolidation in December 2005



Agenda

- Strategic Objectives (2005-2006)
- H1 2006 Financial Results
- **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%

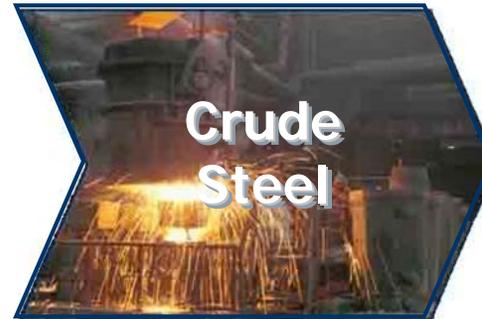


- **To increase crude steel production to 12.4 mln tpy**
- **Quality improvements: boost share of vacuum degassed steel to 50% of total volume**
- **Phase 2 of the Technical Upgrading Program includes following key projects:**
 - ▶ Construction of new Blast furnace #7
 - ▶ Renovation of 3 out of 5 existing 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

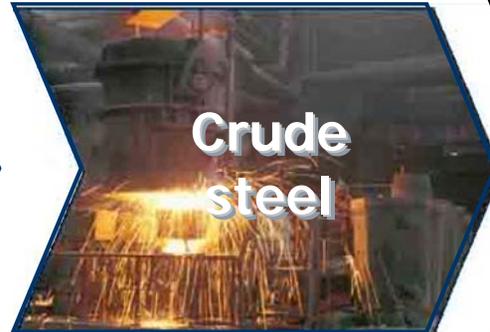
Raw materials objectives :

- 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

Future acquisitions

3.5 mln t

External sales

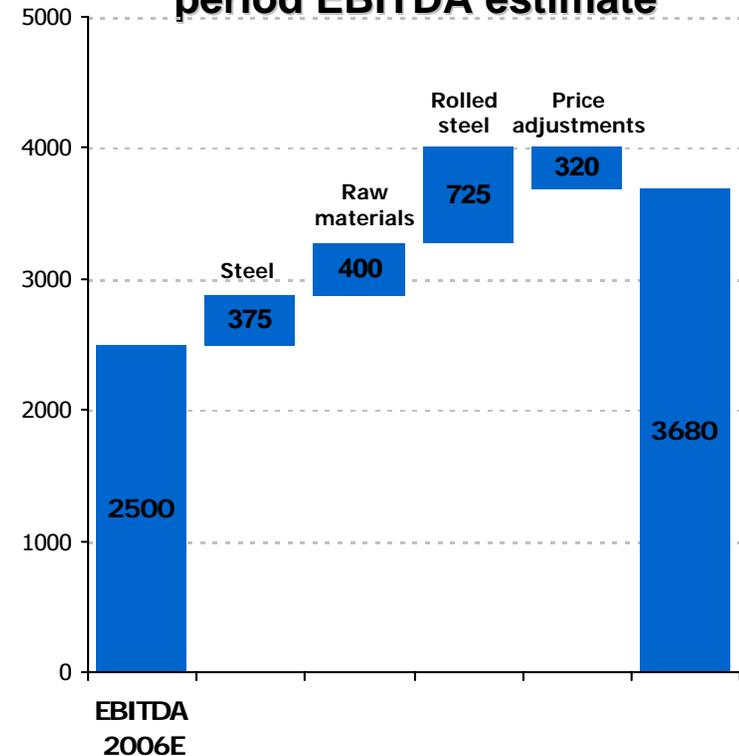
2.3 mln t

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



Appendices



Consolidated statements of income

mIn USD

	1Q 2005	2 Q 2005	3Q 2005	4Q 2005	1Q 2006	2Q 2006
Sales revenue	1 271	1 106	1 011	1 081	1 123	1 479
Production cost	(542)	(486)	(520)	(570)	(605)	(685)
Depreciation and amortization	(74)	(66)	(70)	(73)	(74)	(85)
Gross profit	654	555	420	438	444	709
General and administrative expenses	(25)	(20)	(67)	4	(38)	(50)
Selling expenses	(14)	(18)	(16)	(15)	(16)	(101)
Taxes other than income tax	(5)	(20)	(11)	0	(10)	(11)
Operating income	610	497	326	427	380	546
Loss on disposals of property, plant and equipment	(1)	(6)	(0)	(5)	(1)	(1)
Gain / (loss) on investments	(5)	1	3	(0)	384	7
Interest income	21	25	26	26	29	29
Interest expense	(3)	(4)	(4)	(4)	(5)	(6)
Foreign currency exchange loss, net	(21)	9	(8)	11	(57)	(13)
Other income/(expense), net	2	3	(13)	(8)	(3)	(7)
Income before income tax and minority interest	603	526	330	447	727	555
Income tax	(164)	(118)	(113)	(101)	(177)	(150)
Income before minority interest	439	408	217	346	550	405
Income from associates and subsidiaries	-	3	1	0	0	0
Minority interest	(14)	2	(10)	(6)	(5)	(7)
Net income	426	413	207	340	546	398
EBITDA*	652	580	397	467	390	603

Note:

*EBITDA is calculated as the sum total of net profit, net interest expense, income tax, loss on disposal of fixed assets, depreciation and amortization and stock-based compensation (without gain/ (loss) on investments).



Consolidated balance sheets

	30.06.2005	30.09.2005	31.12.2005	31.03.2006	30.06.2006
ASSETS					
Current assets	3 208	3 263	3 436	3 865	3 287
Cash and cash equivalents	1 773	1 933	1 924	2 271	1 386
Short-term investments	18	19	27	23	21
Accounts receivable, net	697	625	709	764	966
Inventories, net	542	500	559	561	643
Other current assets, net	170	179	209	238	263
Restricted cash	8	8	8	8	9
Non-current assets	2 620	2 704	2 775	2 960	4 087
Long-term investments, net	58	47	31	34	7
Property, plant and equipment, net	2 275	2 375	2 415	2 586	3 341
Intangible assets	19	18	21	20	20
Goodwill	174	175	173	197	589
Other non-current assets, net	93	89	134	123	131
Total assets	5 828	5 967	6 211	6 825	7 374
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities	685	731	612	540	893
Accounts payable and other liabilities	664	704	571	511	834
Current income tax liability	21	26	41	29	58
Short-term capital lease liability	-	-	-	-	-
Non-current liabilities	329	357	392	423	508
Long-term capital lease liability	-	-	-	-	-
Deferred income tax liability	293	310	301	312	422
Other long-term liabilities	35	47	91	111	86
Total liabilities	1 013	1 087	1 003	962	1 401
Minority interest	81	86	93	113	126
Stockholders' equity	4 733	4 793	5 114	5 750	5 848
Common stock	221	221	221	221	221
Statutory reserve	10	10	10	10	10
Additional paid-in capital	1	32	2	2	2
Other comprehensive income	89	120	72	265	414
Retained earnings	4 412	4 410	4 809	5 251	5 200
Total liabilities and stockholders' equity	5 828	5 967	6 210	6 825	7 374



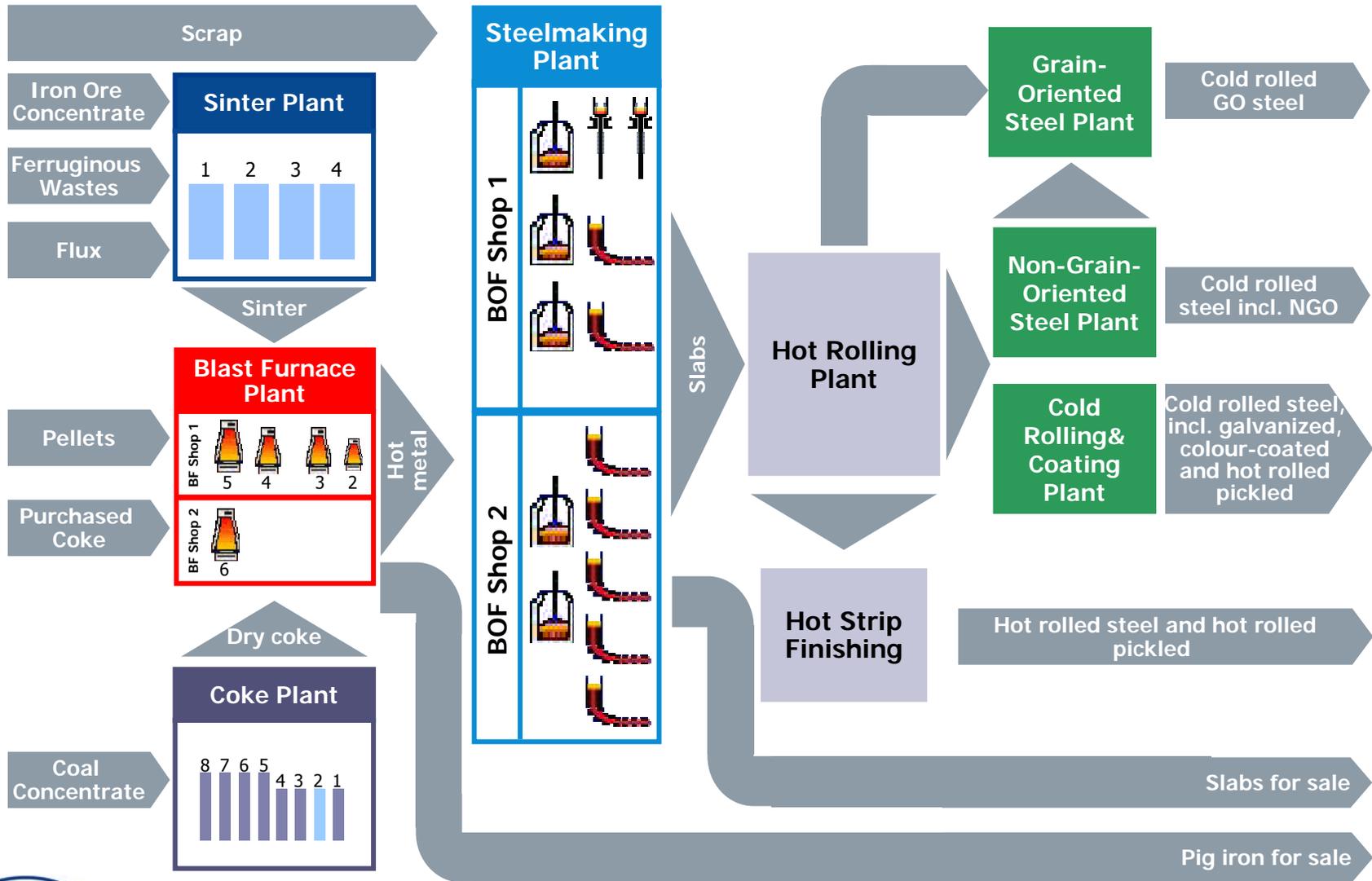
Consolidated statements of cash flows

mIn USD

	1Q 2005	2Q 2005	3Q 2005	4Q 2005	1Q 2006	2 Q 2006
Cash flow from operating activities						
Net income	426	413	207	340	546	398
Adjustments to reconcile net income to net cash provided by operating activities						
Minority interest	14	(2)	10	6	5	7
Depreciation and amortization	74	66	70	73	74	85
Loss on disposals of property, plant and equipment	1	6	0	5	1	1
(Gain)/loss on investments	5	(1)	(3)	0	(384)	(7)
Equity in net earnings of associate	-	(3)	(1)	(0)	(0)	(0)
Defferd income tax (benefit)/expense	8	(10)	15	(13)	(7)	(0)
Stock-based compensation	-	-	31	(30)	-	-
Other movements	(20)	3	(5)	(0)	15	7
Changes in operating assets and liabilities						
Increase in accounts receivables	(232)	101	76	(42)	(25)	(113)
Increase in inventories	(14)	(70)	44	(6)	22	(27)
Decrease/(increase) in other current assets	(3)	2	(10)	(22)	4	(6)
Increase in loans provide by the subsidiary bank	4	(40)	(9)	(24)	(20)	(22)
Increase in accounts payable and oher liabilities	36	31	9	31	(60)	18
Increase/(decrease) in current income tax payable	(24)	(33)	8	15	(13)	27
Net cash provided from operating activities	275	463	444	332	159	369
Cash flow from investing activities						
Acquisitions of subsidiaries	-	-	-	-	(59)	(750)
Proceeds from sale of property, plant and equipment	2	6	1	2	3	0
Purchases and construction of property, plant and equipment	(100)	(166)	(155)	(152)	(91)	(149)
Proceeds from sale of investments	4	20	30	18	403	17
Purchase of investments	(3)	(18)	(10)	(12)	(28)	16
Movement of restricted cash	(2)	(1)	(0)	(0)	0	(1)
Net cash used in investing activities	(99)	(158)	(134)	(145)	227	(867)
Cash flow from financing activities						
Proceeds from borrowings and notes payable	6	2	9	3	8	0
Repayments of borrowings and notes payable	(2)	(1)	(4)	(1)	(15)	(78)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary, net of cash of \$1,070 received in transferred subsidiary	-	-	-	-	(104)	-
Dividends to shareholders	(2)	(5)	(167)	(210)	(0)	(336)
Net cash provided by / (used in) financing activities	3	(4)	(162)	(208)	(111)	(414)
Net increase in cash and cash equivalents	179	301	148	(20)	275	(912)
Effect of exchange rate changes on cash and cash equivalents	(4)	(52)	12	(16)	72	26
Effect of Dansteel A/S consolidation				27		
Cash and cash equivalents at the beginning of the year	1 349	1 524	1 773	1 933	1 924	2 271
Cash and cash equivalents at the end of the year	1 524	1 773	1 933	1 924	2 271	1 386



NLMK's production facilities flowchart





Novolipetsk Steel (NLMK)

