

Severstal

Severstal International

10 September 2008

**Severstal**



Strictly Private and Confidential

Severstal International

Severstal North America

Severstal Europe

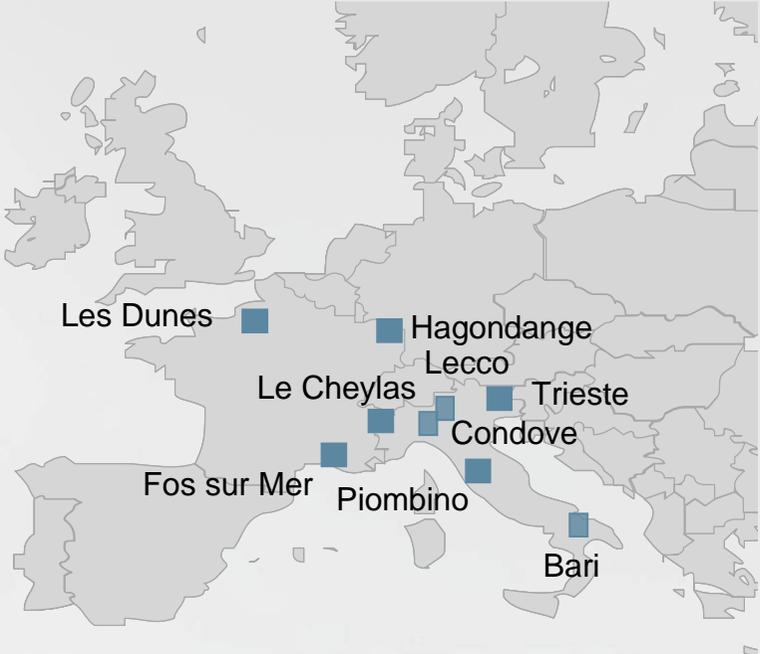
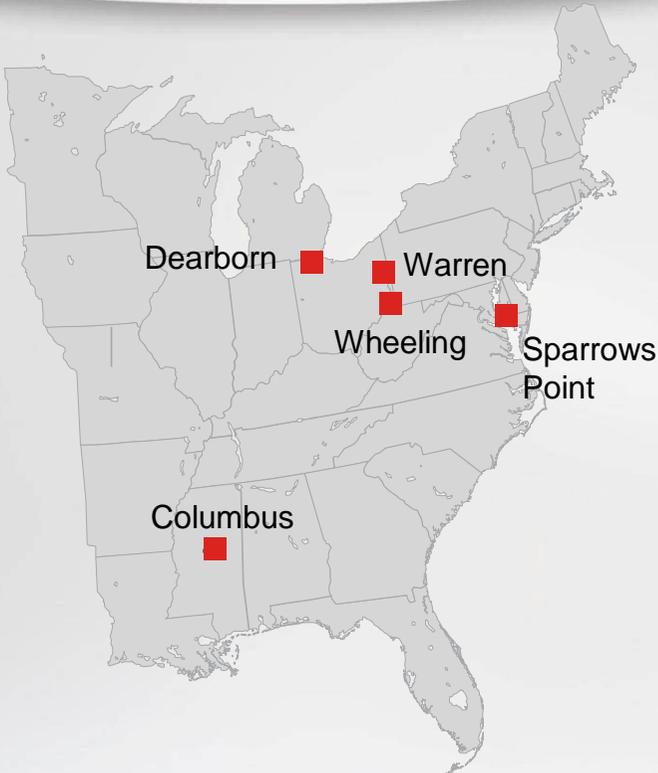
# Disclaimer

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## 1. Severstal International



# Enhanced International Presence



2007	North America	Europe
		 
Capacity (m tonnes)	12.5	3.9
Production (m tonnes) <sup>(1)</sup>	7.9	3.5

(1) Crude steel (pro forma, including assets acquired in 2008 and Severstal Columbus phase I)  
Source: Company

# Experienced Management Team



Gregory Mason  
CEO  
Severstal International

## North America



Ronald J. Nock  
CEO  
Severstal North America



James P. Hrusovsky  
CEO  
Severstal North America/Columbus



Mark J. Yost  
CFO  
Severstal North America

## Europe

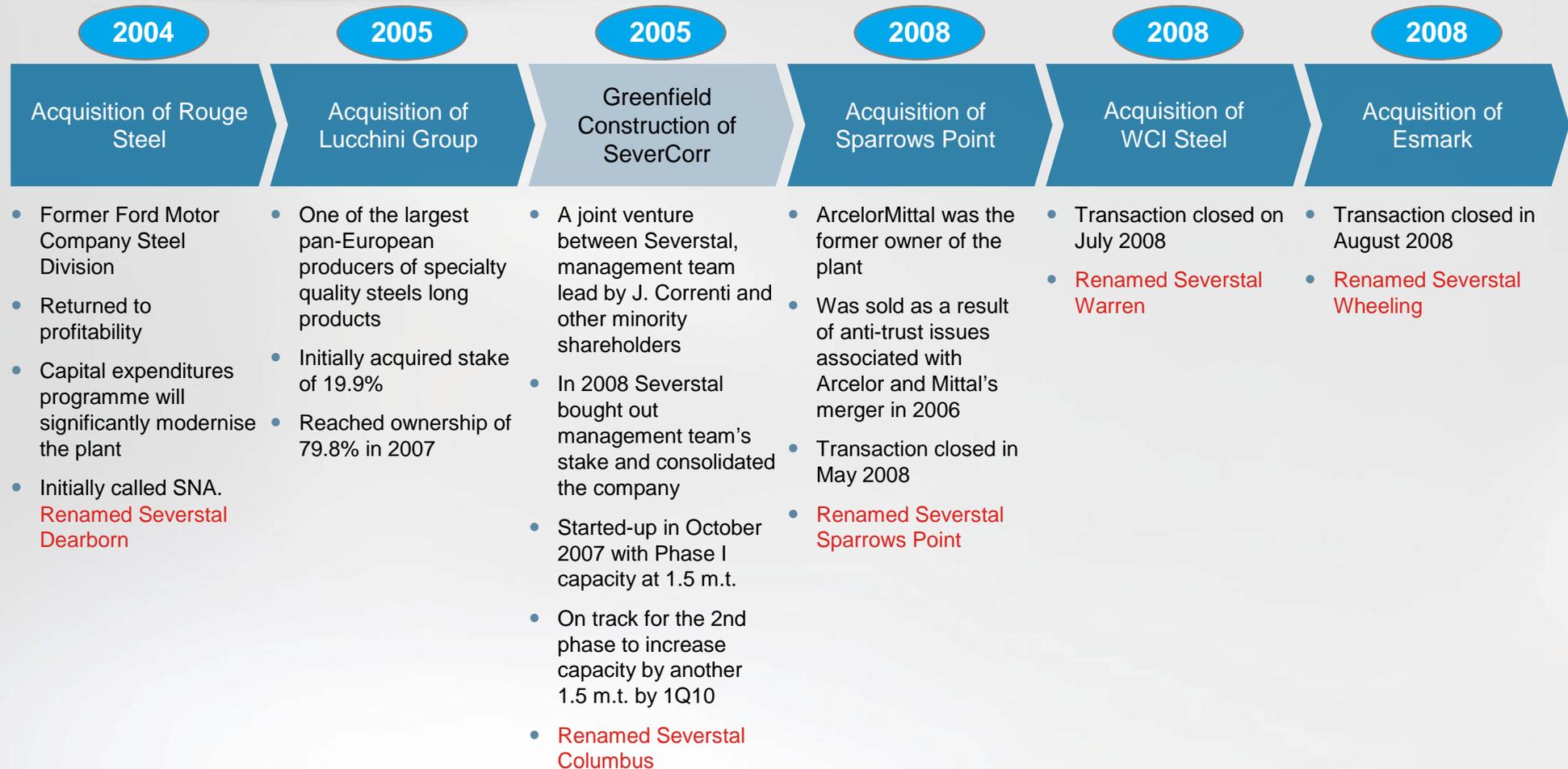


Herve Kerbrat  
CEO  
Lucchini Group



Igor Molibog  
CFO  
Lucchini Group

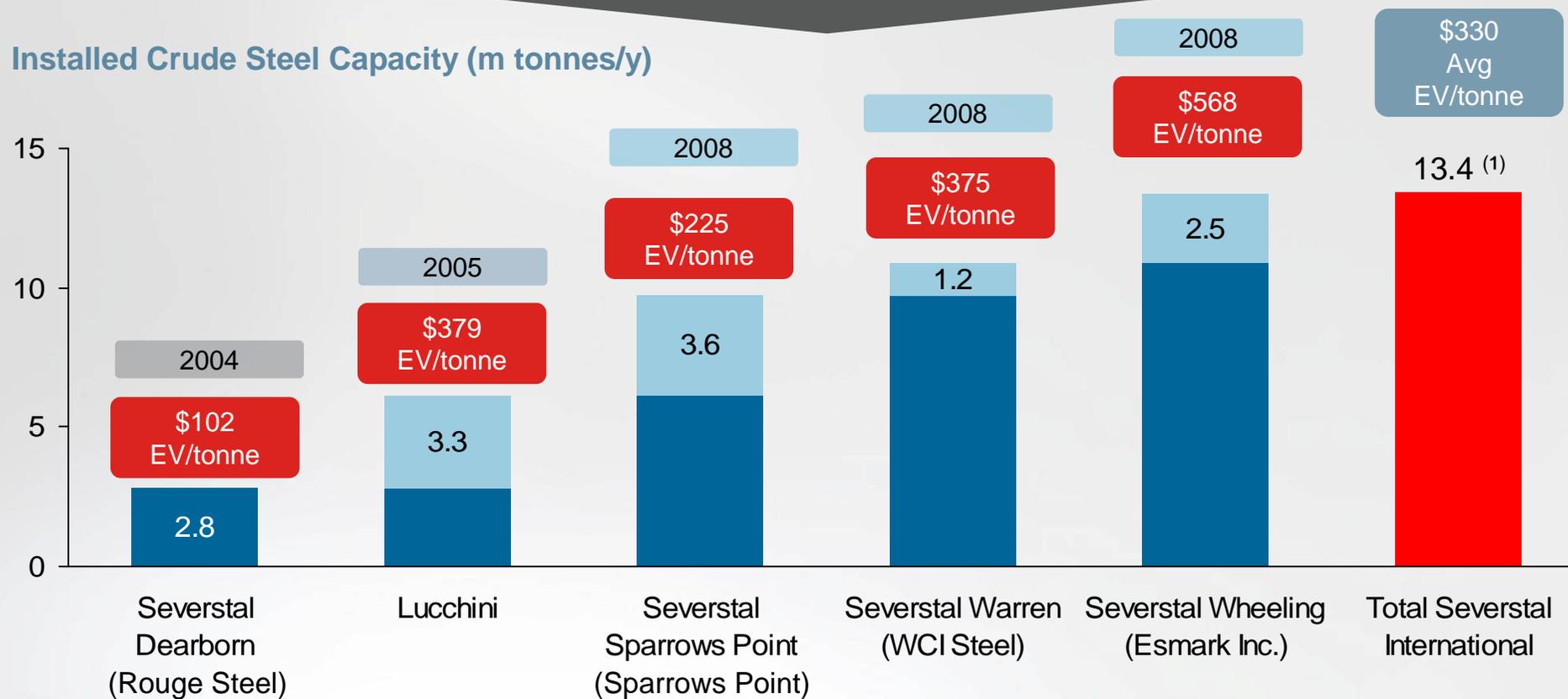
# Strategy in Action – History of Growth



# Active and Disciplined M&A Track Record

Average EV/tonne Paid in:  
2004–2008 = \$330 and in 2008 = \$389

Installed Crude Steel Capacity (m tonnes/y)



(1) Excludes Severstal Columbus plant, as a greenfield project  
Source: Company

# Evolution of Severstal's Geographic Diversification

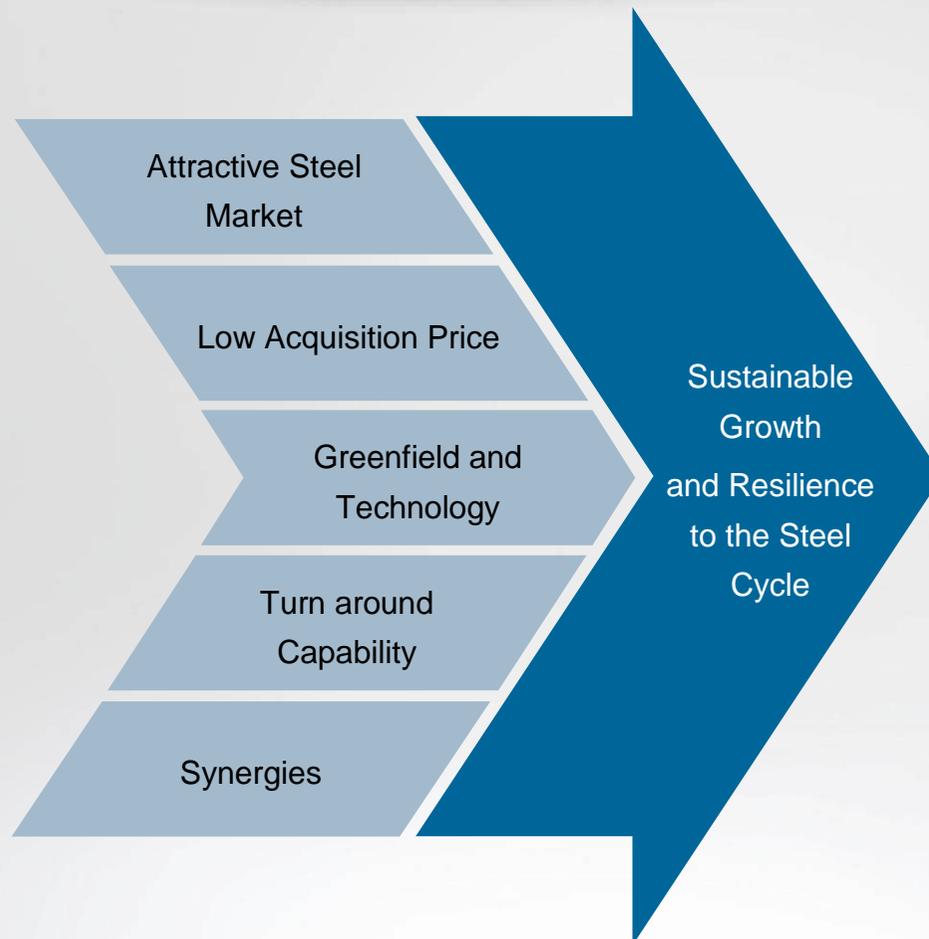


(1) Pro Forma including acquisitions

## 2. North America



# North America Strategy

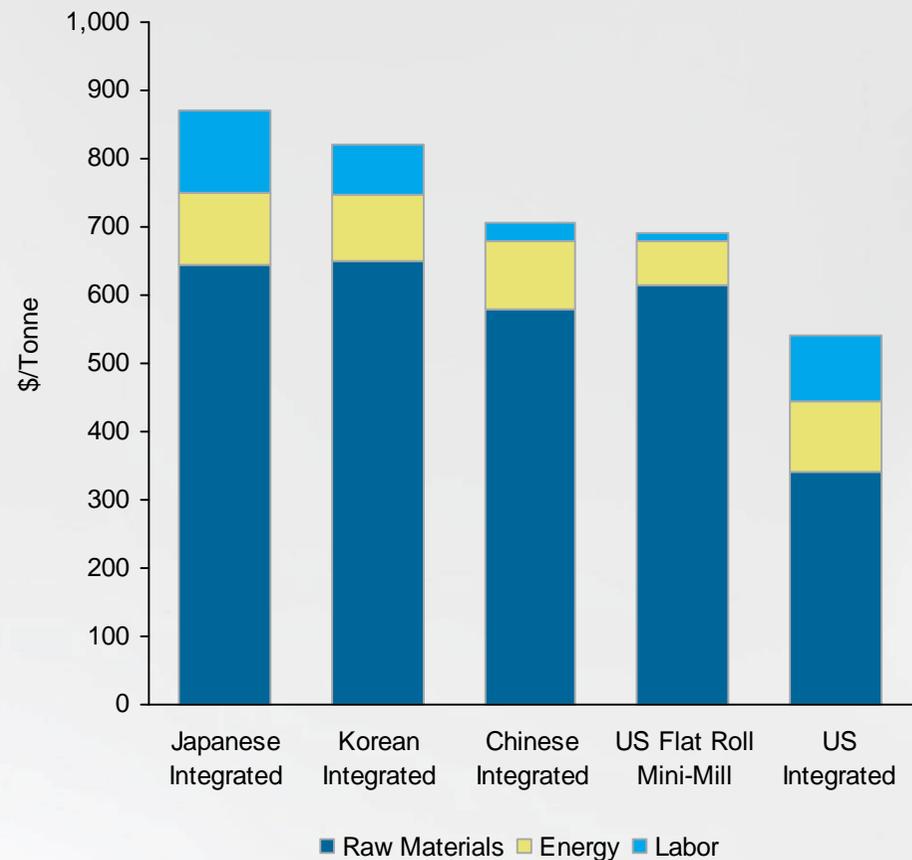


- Realise high investment returns through focusing on under-utilised and under-performing assets with high value potential and synergy upside, as well as reasonable acquisition price
- Turn around acquired assets through investments and management expertise
- Reinforce position as one of the largest integrated steel producers in the US
- Diversify and balance the asset base
- Enhance our ability to offer customers a full range of products
- Reinforce vertical integration, through upstream and downstream acquisitions
- Take advantage of mature markets in the Northern US and fast-growing markets in the Southern US

# Attractive Market

- The United States steel market is among the most attractive in the world
- The only developed country in which it is attractive to build a new steel plant
- Highly consolidated domestic supply base enables significant market discipline benefits
- World's largest automotive market with significant new and ongoing transplant investments
- Highly competitive capital and construction costs
- High-quality, abundant raw materials
- Global raw material and energy prices have minimised the lower labor cost advantage of emerging markets

Hot Band Cash Cost Per Tonne – June 2008



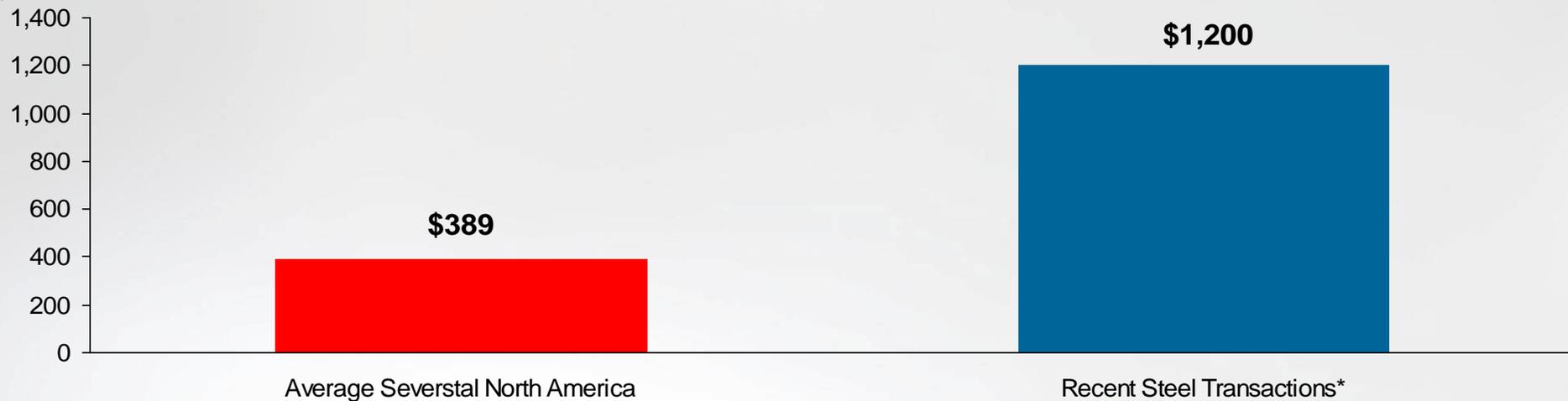
Source: JPMorgan broker research

# Low Cost – High Value Investments

- Acquire under-utilised and under-performing assets to increase return on investment and total shareholder return
- North American assets acquired at a significant discount to comparable steel transactions
- Acquiring under-performing steel companies allows management to focus our capabilities and resources on modernising and extracting value from the assets

## EV/Tonne

(\$)

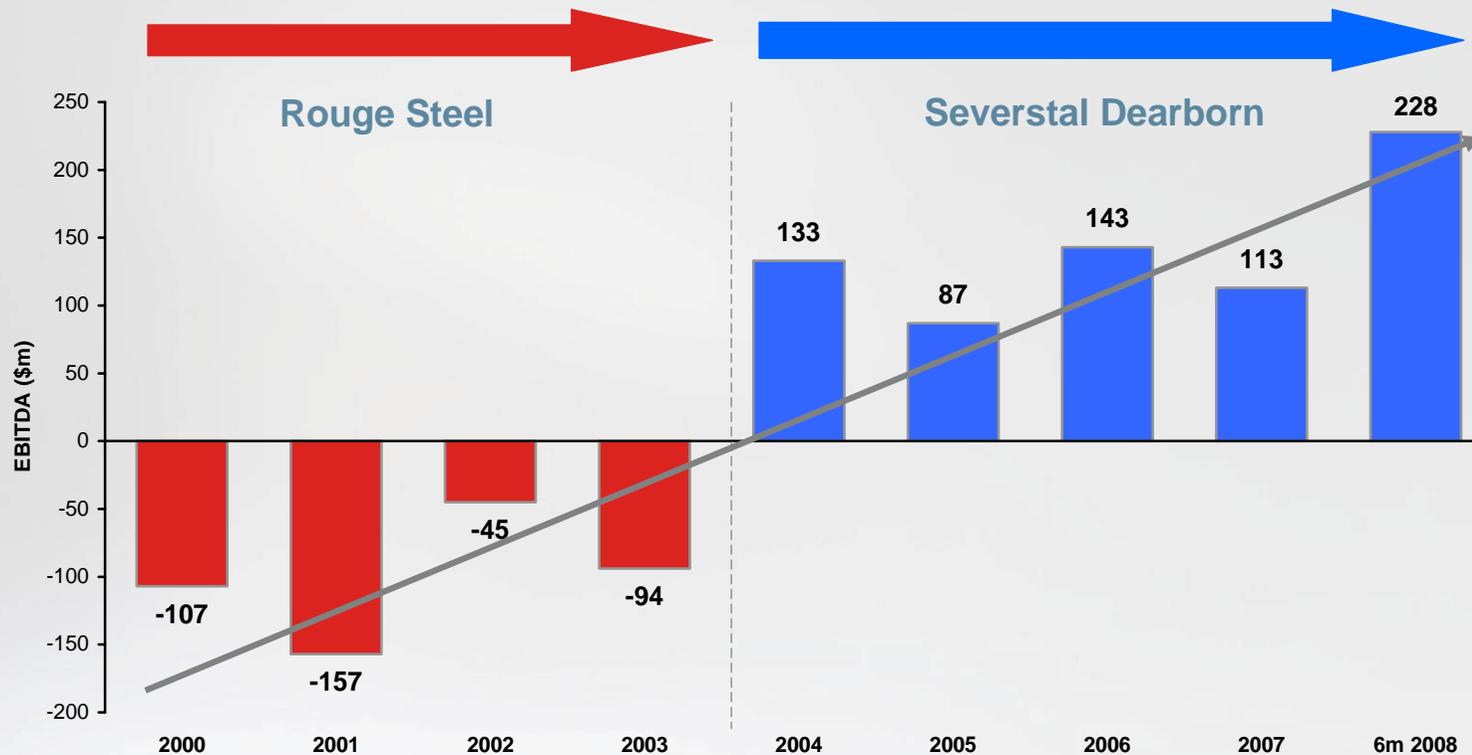


Source: Company

\*Selected steel transactions announced in 2007 and 2008

# Successful Turnaround at Dearborn

- 42% return on original investments of US\$285m calculated based on 2004–2006 average EBITDA



Notes: 2000–2003 – US GAAP based EBITDA; 2004–2008 – IFRS based EBITDA  
 2004 – EBITDA for Severstal ownership period only (Feb-Dec 2004)  
 2007 – EBITDA adjusted for “C” blast furnace rebuild (annualised 1st half 2007)  
 6m 2008 – Jan-Jun 2007, including business interruption insurance recovery and gain from electricity contract settlement

# The Turnaround Process



# Modernisation at Severstal Dearborn

- Comprehensive \$1.2 billion modernisation programme with key projects to be completed by 2009
- Capex projects include capacity expansions, refurbishment of Dearborn blast furnace B, efficiency and product improvements and environmental investments

	Start-up	Indicator	Units	2006	2007	6m2008	
<b>Completed</b>	Secure Coke Supply	4Q 2005	MSC Price	\$/ton	\$285	\$242	\$238
			Spot Price	\$/ton	\$266	\$252	\$453
	"C" Blast Furnace Rebuild	4Q 2007	BF Fixed Cost**	\$/ton	\$50	\$49*	\$41
	HSM Reheat Furnace Upgrade	2Q 2007	Nat Gas Cost**	\$/ton	\$27	\$24	\$22
	Caster Straight Mold Conversion	4Q 2007	Pencilpipe Rejects	%	0.09	0.06	0.00
	BOF Baghouse	4Q 2007	Environmental improvement				
<b>Underway</b>	"B" Blast Furnace Rebuild	3Q 2009	Production increase				
	New Pickle Line-Tandem Mill Facility	3Q 2009	Cost, quality, product mix improvement				
	New Automotive Exposed HDG Line	4Q 2009	Product mix improvement				

Note: \* - excluding rebuild outage

\*\* - adjusted for economics

Source: Company data.

# Severstal Dearborn – Automotive Center of Excellence

- Located in the heart of the flat rolled steel consumption market – 8% share of the US automotive steel supply
- Integrated flat-rolled steel producer with 3.4m tonnes of steelmaking and 3.6m tonnes of rolling capacity
- Strategically located with easy access to logistics channels, raw materials and customers
- Currently going through an extensive \$1.2 billion investment programme
- 2,131 employees
- Four joint ventures with US companies to expand product lines



**Direct Automotive Customers**

**Indirect Automotive Customers**

BMW	Mazda	DaimlerChrysler	Mitsubishi
DaimlerChrysler	Mercedes Benz	Ford Motor Co.	Nissan
Ford Motor Co.	Mitsubishi	General Motors	Subaru
General Motors	CAMI (Suzuki)	Honda	Toyota
		Mazda	VW

Source: Company

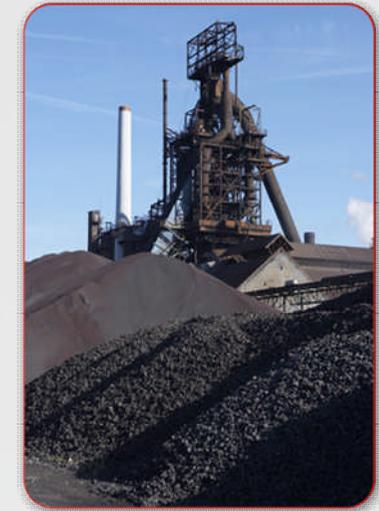
# Severstal Sparrows Point – Construction and Container Market Center of Excellence

- The only integrated steel plant on the East Coast, with its own deep water port and rail connection
- One of the most modern cold mills in North America, commissioned in April 2000
- Fully integrated producer of a range of sheet, tin mill products and high quality slabs for plate manufacturing
- Total crude steel capacity of 3.6m tonnes and shipments of 2.3m tonnes in 2007
  - Third largest blast furnace in North America, completely relined in 1999
  - Wholly-owned on-site 12MW power generation facility
  - Self-contained tin mill
  - 3 active on-site coating lines: galvanised/Galvalume™
- Complementary product line to Severstal's existing US businesses
- 2,500 employees



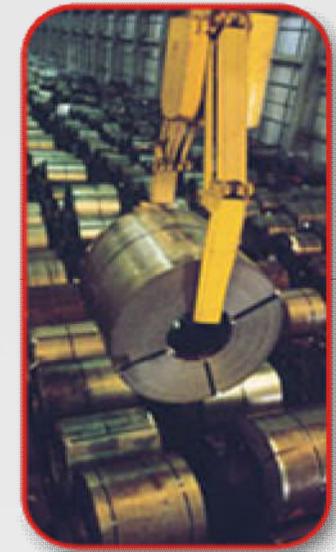
# Severstal Warren – Custom Steel Center of Excellence

- Integrated flat-rolled steel producer with 1.2m tonnes of crude steel capacity in value-added custom and commodity products for niche markets
- One of the most diversified product portfolios in the US
- Produces 185 grades of steel with focus on high carbon, alloy, ultra high strength and heavy gauge galvanized
- Customers include steel converters and service centers, construction product companies and pipe and tube manufacturers
- Complementary to existing product offering and geographic footprint
- Enhances Severstal North America's custom product capabilities and customer base
- 1,315 employees



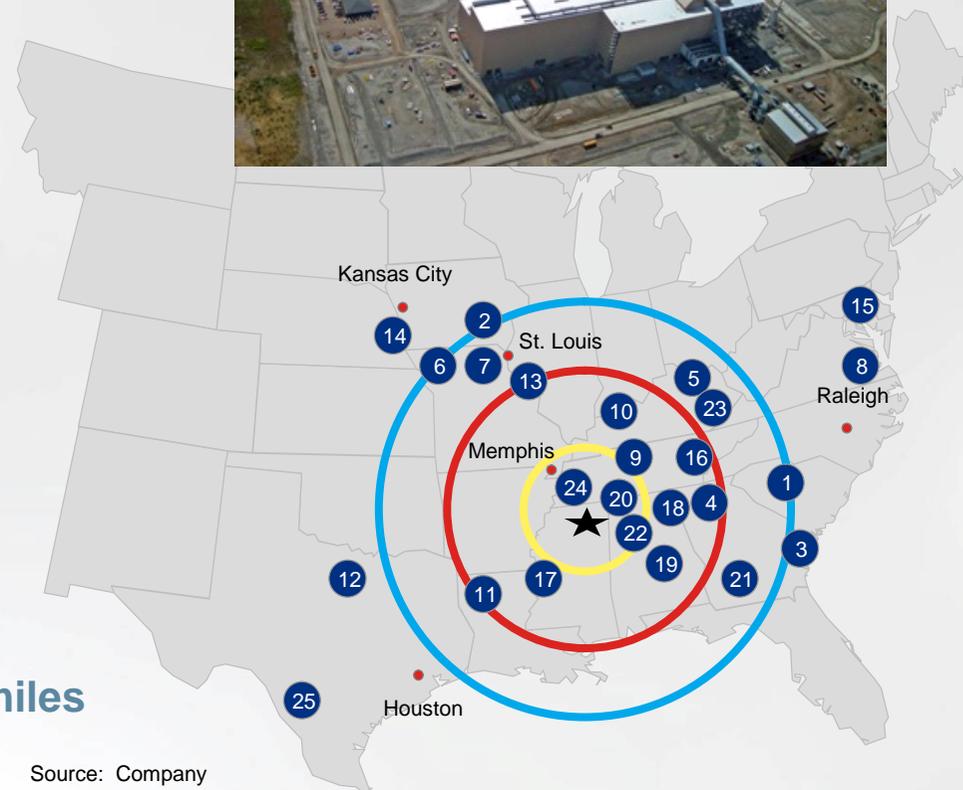
# Severstal Wheeling – Wide and Tin Product Specialist

- Located in the heart of the US industrial market with easy access to logistics network
- Integrated flat-rolled steel producer with 2.5m tonnes of steelmaking capacity and 3.6m tonnes of rolling capacity
- Products include hot rolled (“HR”), cold rolled (“CR”), hot-dipped galvanized (“HDG”) and corrugated
- Customers include construction, container, appliance, converters
- Strong synergies with other North American operations
- 3,500 employees



# Severstal Columbus – Greenfield Project

- The only EAF CSP plant in the world designed to make exposed steels
- One of the most technologically advanced plants in the world
- Located to serve the high-growth markets of Southern US and Mexico
- Products include HR, CR & HDG all 1850 mm (72")
- Commissioned 1st phase with 1.5m tonnes of crude steel capacity in 2007. Fastest CSP mini-mill start up in history (SMS data)
- Commissioning of the 2nd phase with addition of 1.5m tonnes capacity in 2010
- 505 employees



**19 of 25 Southern Auto makers within 450 miles**

Source: Company

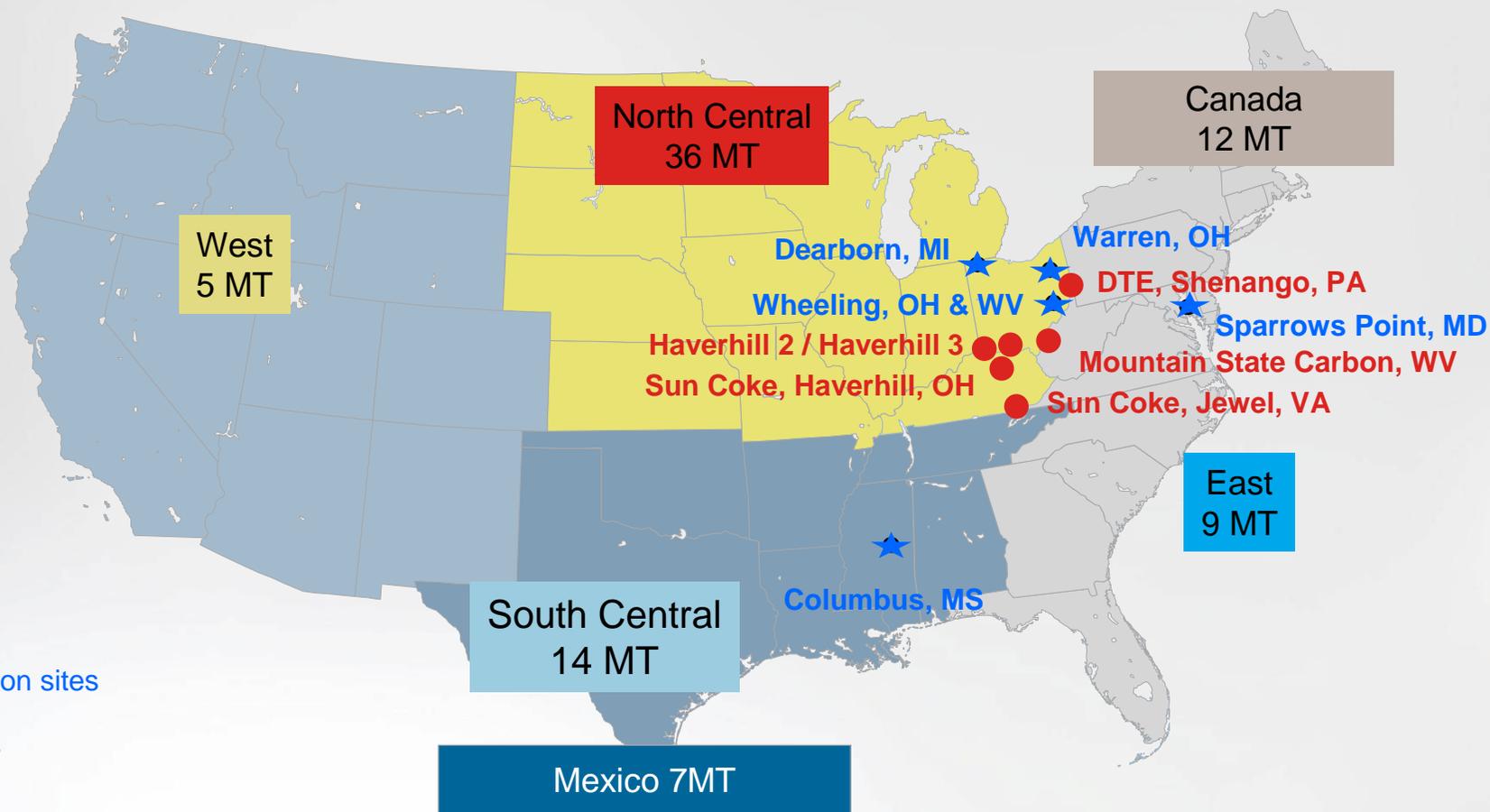
150 miles    300 miles    450 miles

# Severstal Wheeling Downstream Distribution Business

- Service centers and processors
  - Eight service centers with total sales of 600,000 tons per annum
  - One 100,000 ton electro-galvanizing line
  - Mostly supply cold-rolled and galvanized products
- Wheeling corrugating
  - \$450m revenue with shipments in the 400,000 tonne range
  - 13 locations throughout the US
  - Makes roll formed products (both galvanized and painted)
  - Established diversified customer base



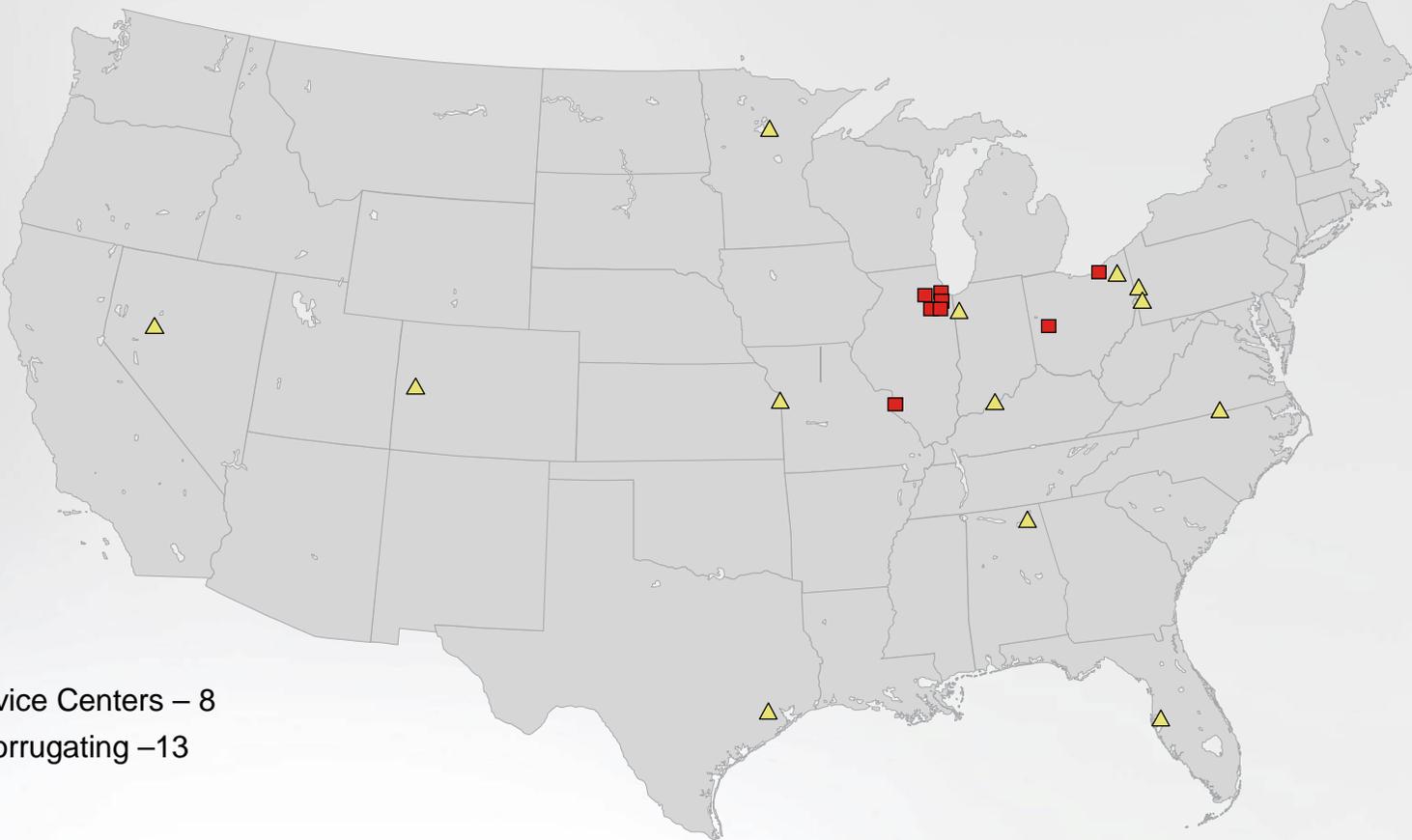
# Strong Presence in High Consuming Regions for Flat Roll



Source: Company

# Substantial Downstream Distribution Business

- Esmark service centers and Wheeling corrugated provide Severstal with its first foray into downstream products in North America



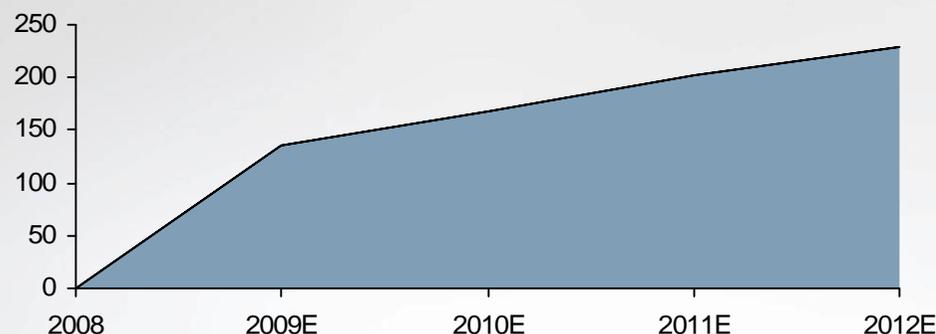
■ Esmark Service Centers – 8  
▲ Wheeling Corrugating –13

Source: Company data.

# Integration Under Way for Newly Acquired Assets

- Cultural fit is very strong – entrepreneurial spirit and passionate to be part of a great company
- Synergies are more numerous than anticipated and are ahead of schedule
  - Undergoing post close synergy review and confirmation
  - Have identified and are in process of rationalising/closing high cost facilities
  - Started process of optimizing orders to maximise margin and minimise freight costs
  - Utilizing our enhanced market flexibility to export orders to maintain supply/demand balance
  - Benefits of having additional capacity as profit impact of planned maintenance outages are being mitigated
  - Able to utilise enhance production facilities to pull production in-house that was formerly outsourced
  - Significant raw material cost reductions are under way with the handling and optimisation of coking coal

## Synergy Potential Build-up



Source: Company

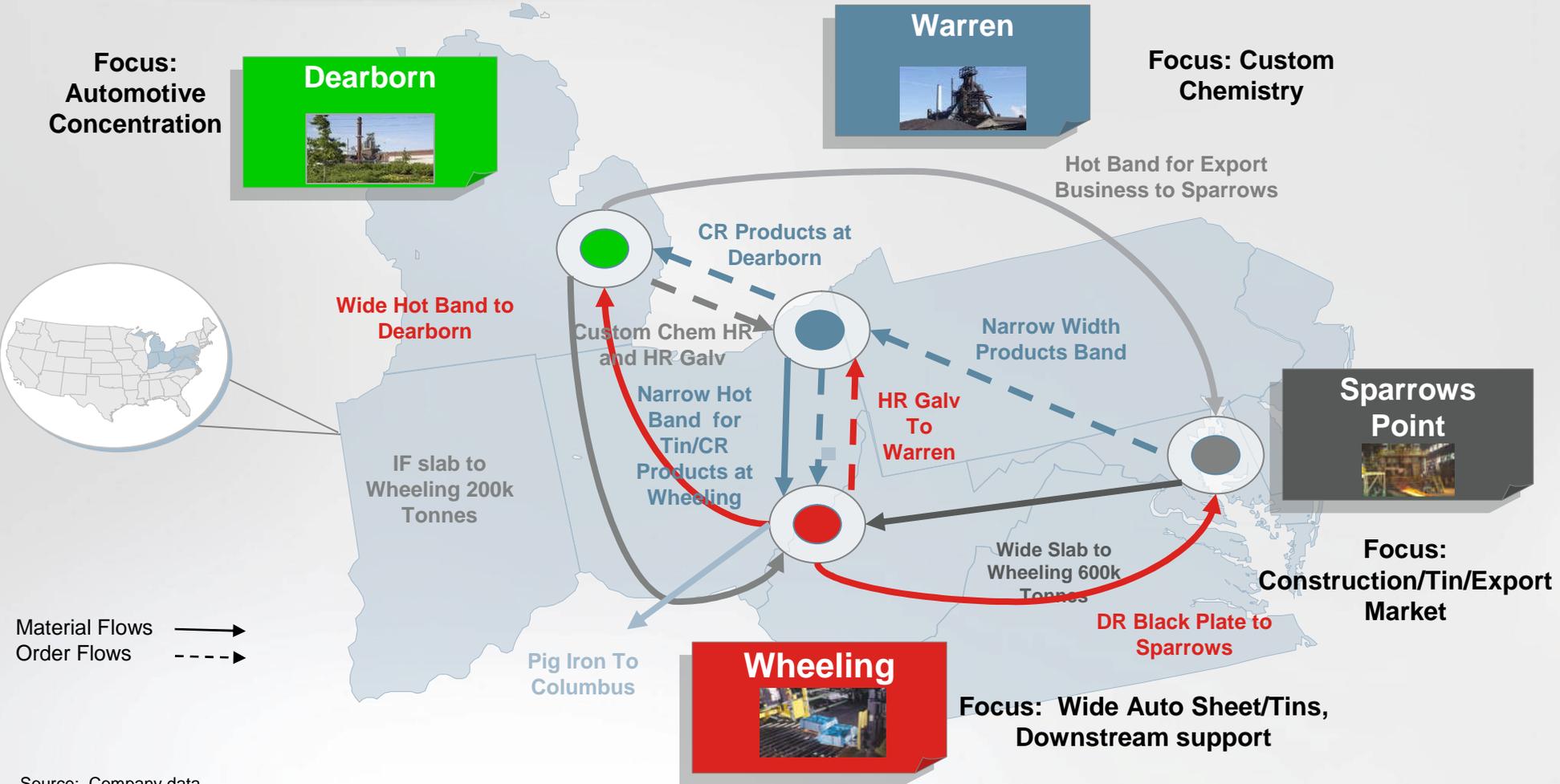
Company	Capacity (m tonnes)	Synergies (\$m/year)
Severstal Sparrows Point	3.6	\$82
Severstal Warren	1.2	\$31
Severstal Wheeling	2.5	\$116
<b>Total</b>	<b>7.3</b>	<b>\$229</b>

# Some Examples of Synergy Initiatives

Initiative	Objective	Timing	Expected Sustainable Annual Savings at Completion
Hot Mill optimization	<ul style="list-style-type: none"> <li>400,000 NT/yr wide hot bands to meet auto requirements produced at wheeling</li> </ul>	<ul style="list-style-type: none"> <li>50% complete 2010;</li> <li>100% complete 2012</li> </ul>	\$27m
Purchasing optimization	<ul style="list-style-type: none"> <li>Achieve 4% reduction in purchased goods/services (excluding energy)/raw materials</li> </ul>	<ul style="list-style-type: none"> <li>70% complete 2009</li> <li>80% complete 2010;</li> <li>90% complete 2011;</li> <li>100% complete 2012</li> </ul>	\$23m
Geographic rationalization of customers	<ul style="list-style-type: none"> <li>Supply customers from nearest producing location</li> </ul>	<ul style="list-style-type: none"> <li>70% complete 2009</li> <li>100% complete 2010</li> </ul>	\$5m
Operational scheduling efficiency	<ul style="list-style-type: none"> <li>Consolidate grade production at specific facilities</li> </ul>	<ul style="list-style-type: none"> <li>80% complete 2009;</li> <li>100% complete 2010</li> </ul>	\$7m
Rationalize high cost facilities	<ul style="list-style-type: none"> <li>Exit facilities, supply from lower cost facilities</li> </ul>	<ul style="list-style-type: none"> <li>100% complete 2009</li> </ul>	\$7m

Source: Company

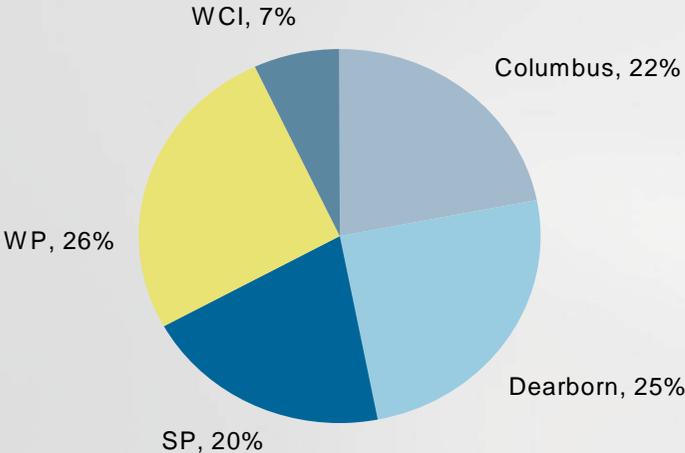
# Integrated Network of Synergistic Industrial Logic



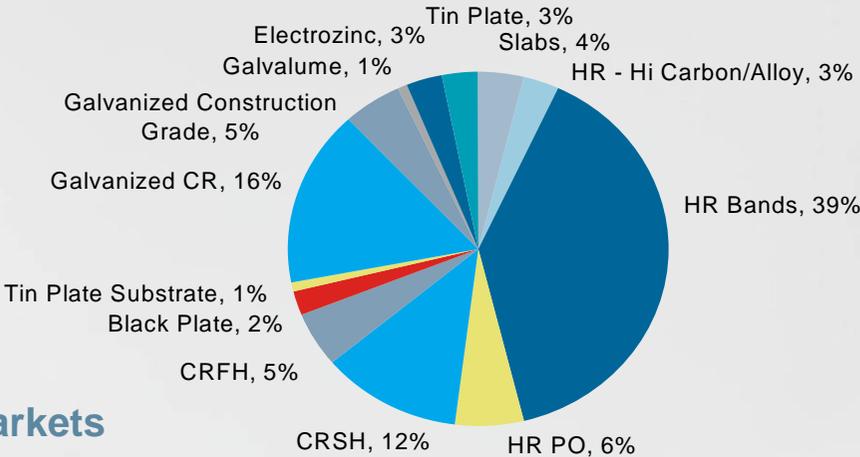
Source: Company data.

# North American Pro Forma Run-Rate Product Mix

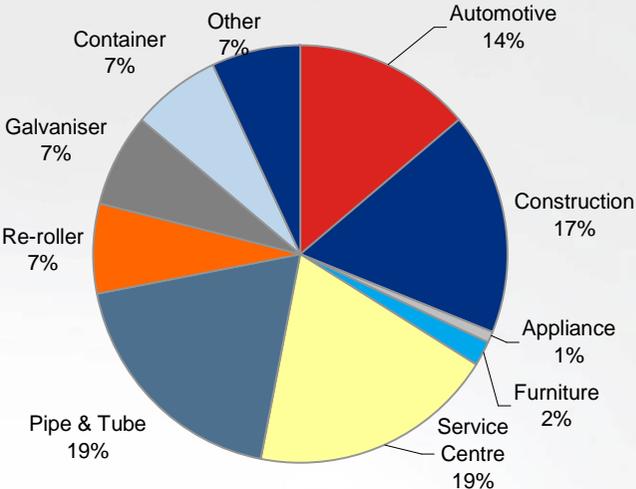
Revenue by Plant



Revenue by Product



Revenue by End-Markets



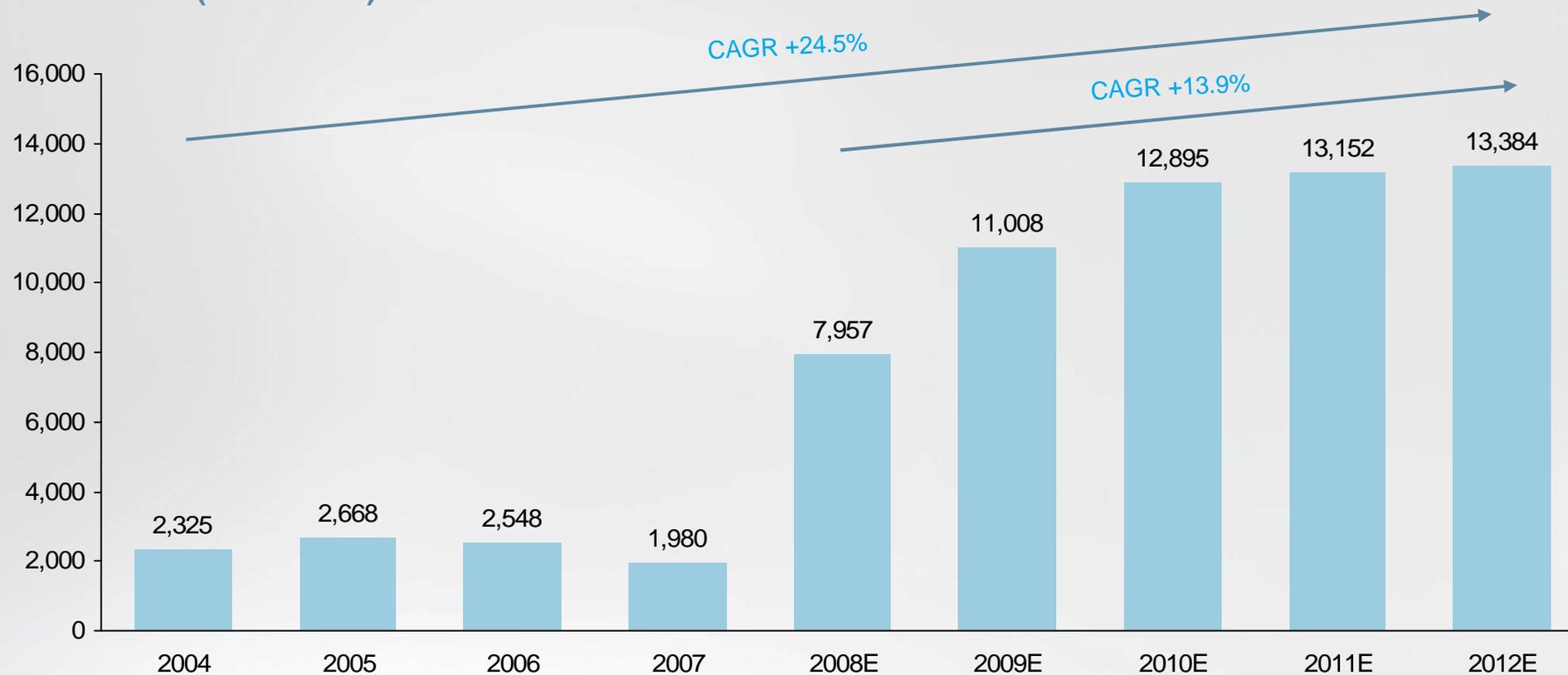
Source: Company Information.

# Raw Material Self-Sufficiency

- North American assets are largely secured with iron ore supplies with annual and long-term contracts
  - Dearborn through Cleveland Cliffs until 2022
  - Wheeling through Cleveland Cliffs (until 2011) and Vale (until 2009)
  - Warren through Cleveland Cliffs until 2014
  - Sparrows Point through IOC and Vale (until 2009)
- Estimated run-rate 2012 coke requirements – 3.35m tonnes per annum
  - 32% self-sufficient in coke in 2007
  - Targeted 64% self-sufficient in coke in 2009, due to established strategic alliances with SUN
  - Targeted 99% self-sufficiency in coke in the run-rate period
- Estimated run-rate 2012 coal requirements – 5.42m tonnes per annum
  - Acquisition of PBS Coals Corporation will help to secure up to 50% of coal requirements, starting 2009
- Severstal's North American operations are significant consumers of scrap, pig iron and hot briquetted iron ("HBI") with estimated run-rate annual requirements of 2.3m tonnes
  - Security of scrap supply is being addressed through long term agreements, potential acquisitions, internal generation or greenfield installations

# Operating Performance

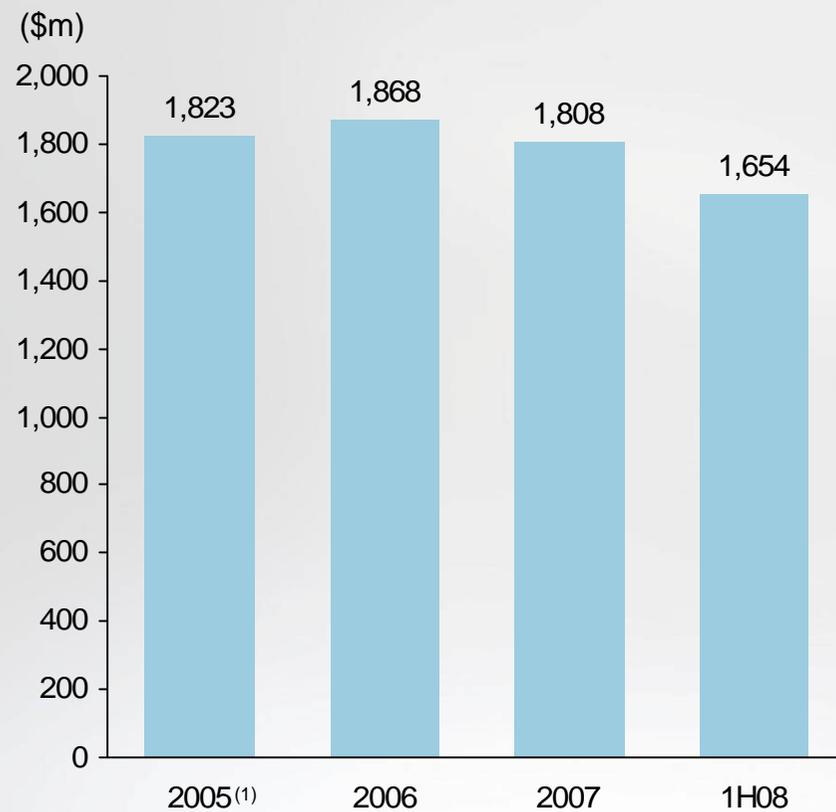
## Crude Steel (000 tonnes)



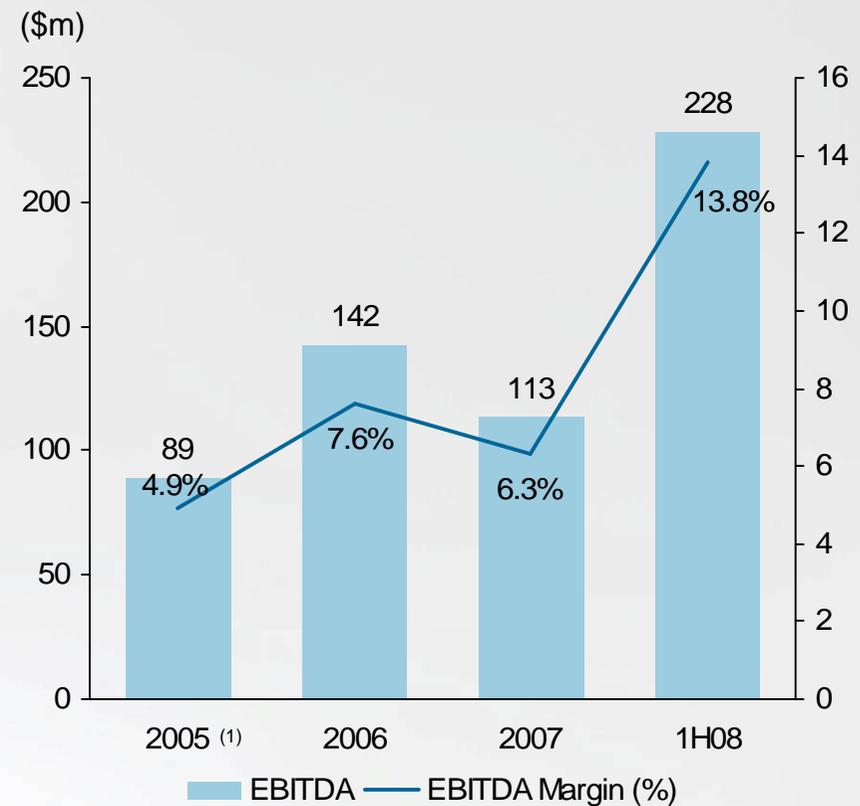
Source: Company data.

# Financial Performance

## North America Sales Revenue



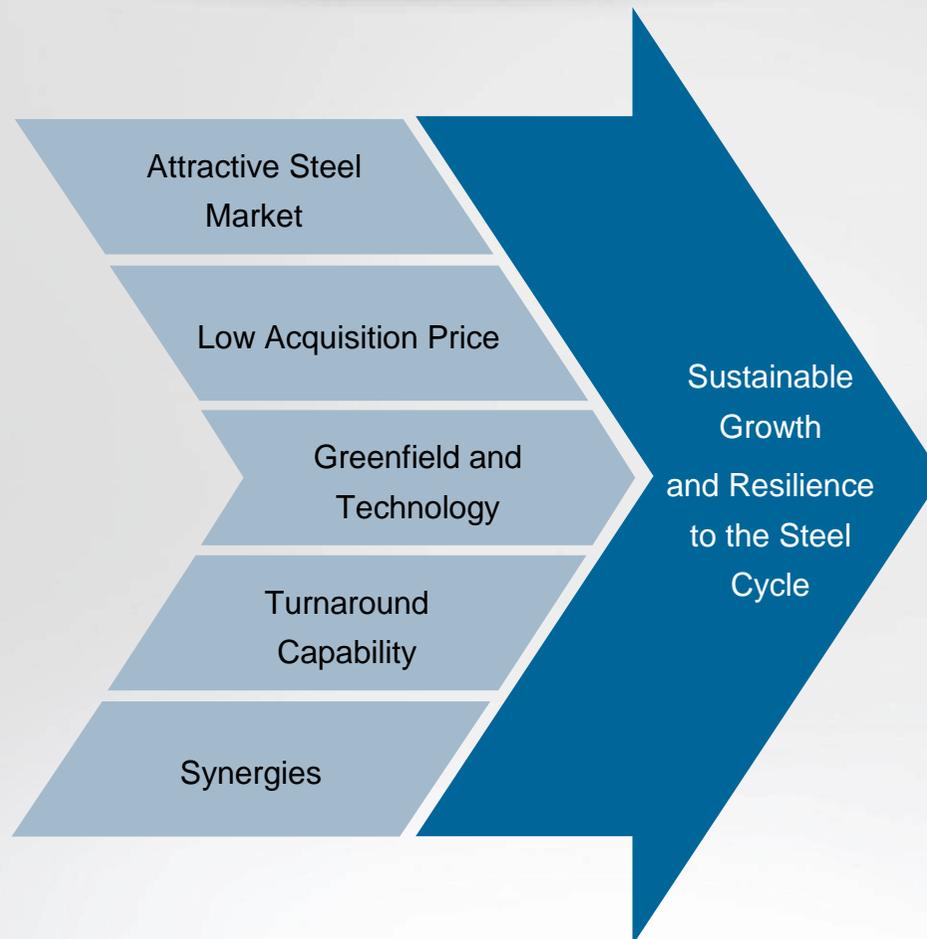
## North America EBITDA and Margins



Source: Company data

Note: 2007 – Revenue and EBITDA adjusted for “C” blast furnace rebuild (annualized 1st half 2007)

# Summary – North America



- Realise high investment returns through focusing on under-utilised and under-performing assets with high value potential and synergy upside, as well as reasonable acquisition price
- Turnaround acquired assets through investments and management expertise
- Reinforce position as one of the largest integrated steel producers in the US
- Diversify and balance the asset base
- Enhance our ability to offer customers a full range of products
- Reinforce vertical integration, through upstream and downstream acquisitions
- Take advantage of mature markets in the Northern US and fast-growing markets in the Southern US

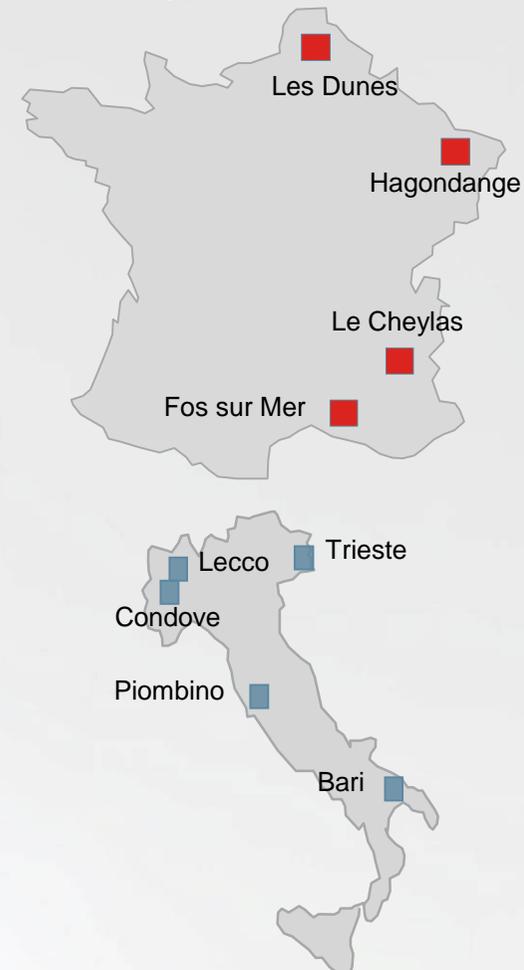
## 3. European Operations



# Overview of European Operations

- Amongst the 10 largest steel producers in Europe
- Wide range of various high quality specialized steel products
- Italy
  - Second largest steel producer in Italy
  - Italy's leader in the value-added wire rod and rails markets
  - 90% of Italian rail market
  - 20% of Western European rails market
- France
  - Leading producers of engineering steels (SBQ) in France
  - Technologically advanced processes
  - Well established and loyal customer base

## Major Production Sites

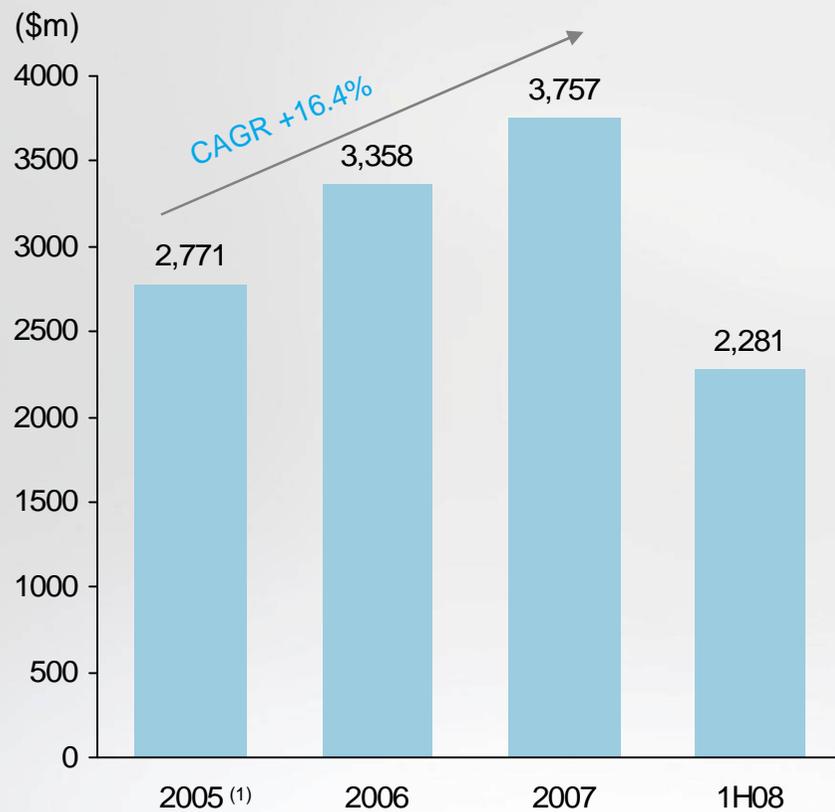


# Severstal European Strategy

- Continue our growth in Western Europe
- Increase share of finished products and expand the product portfolio through focused capital expenditure programme
- Diversify customer base and pursue developments in new, high-growth markets such as Eastern Europe and the Middle East
- Increase share of customized high-quality products (automotive, machinery, appliances and rail)
- Strengthen cost position in Italy and Western Europe

# Successful Turnaround Story

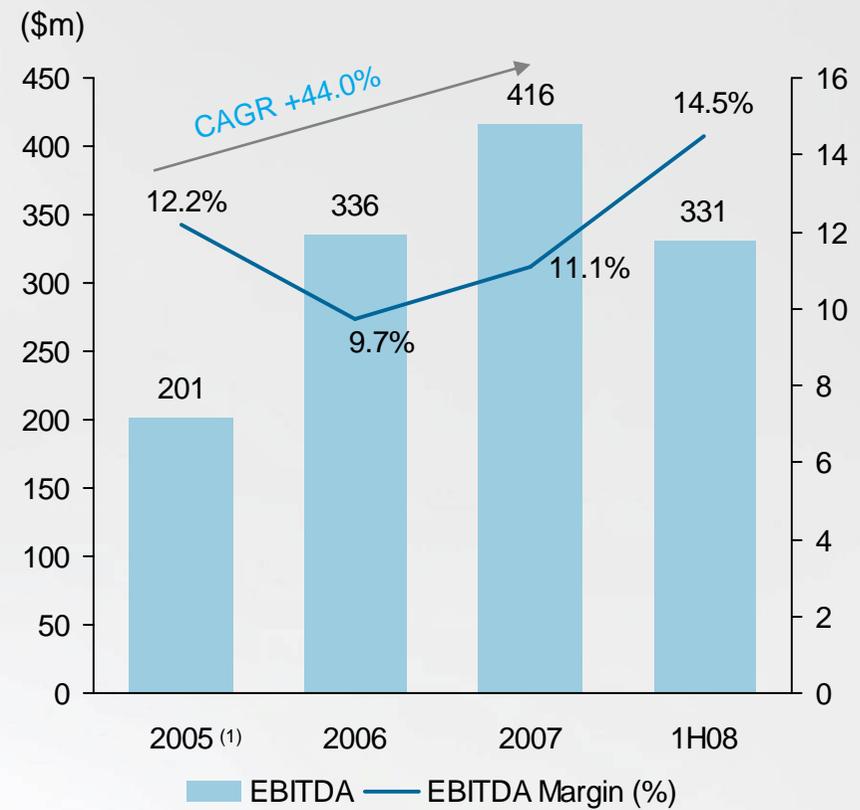
## Lucchini Sales Revenue



Source: Company data

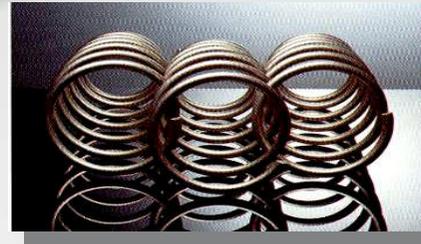
(1) Based on 8 months from consolidation calculated on an annualised basis.

## Lucchini EBITDA and Margins



# Value-added Niche Markets

- 1,000 customers in niche markets – automotive, rails, bearings, springs and wire rod, bar products, bar and rail products
- Over 1,200 sizes and cross-sections
- Drawn, peeled, heat-treated, fully processed products



# Raw Materials Strategy

- Raw materials supplies are secured with 2–3 year contracts
  - Severstal Resources accounted for approximately 16% of total supplies in 2007
  - Severstal is considering increasing volumes shipped by Severstal Resources to Lucchini
  - Recently announced acquisition of Liberian iron ore deposit
- High degree of self-sufficiency in coke
- 100% of scrap requirements of Ascometal have been purchased on the Western European markets from favourably located scrap yards, resulting in low transportation cost

# Piombino

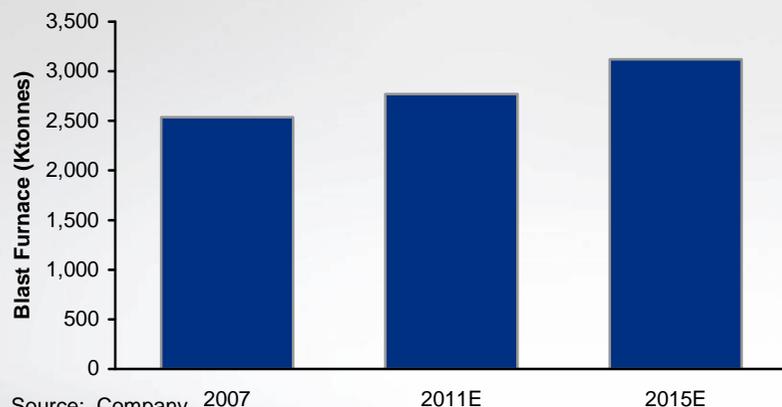
- Leader in the Italian market for value-added long steel products
- Integrated long steel producer specializing in wire rods, bars and rails
- 3.0m tonnes of steel capacity and 2.0m tonnes of rolled long products capacity
- Strategic location with access to sea, rail and road transportation
- 3,204 employees



# Piombino – Capex Spent on Capacity Expansion and Production Efficiencies

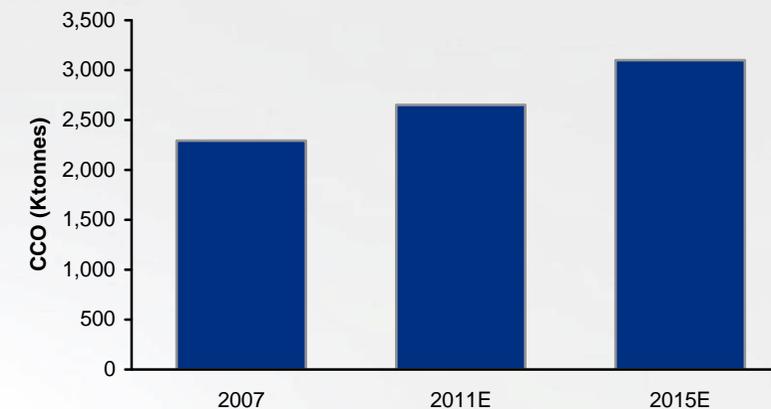
- Piombino's capital expenditure spend is aimed at capacity expansion, production efficiencies, and product mix enhancement
- New thin-slab caster and flat rolling mill being built in Piombino to expand into flat products to meet supply shortfall in Italy
- Finished products to comprise nearly 100% of production (60% today) by 2012
- Improvement in equipment for high margin long products
- Revamp of blast furnace in 2009
- Steelmaking capacity increase to 3.1m tonnes in 2012
- Intensive capital maintenance program to improve plant reliability and efficiency
- Improvements in safety and environmental compliance

### Piombino Blast Furnace Output



Source: Company

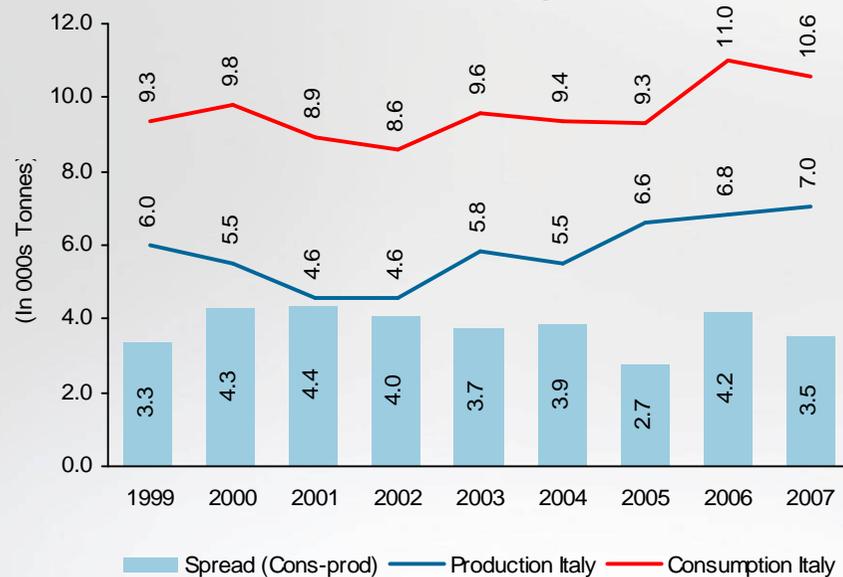
### Piombino Crude Steel Production



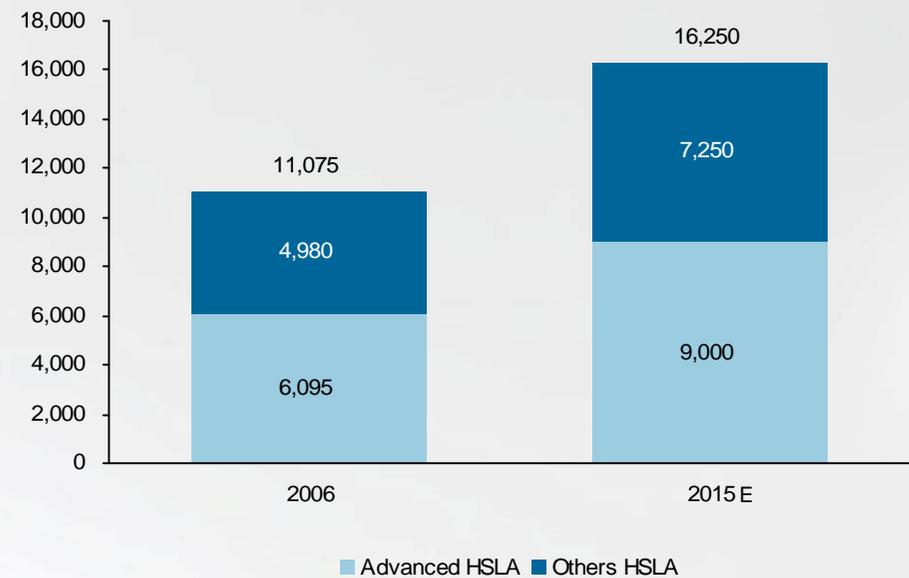
# Motivations For Flat Steel Expansion in Italy

- There is a significant supply deficit of HRC and CRC products in Italy
  - HSLA is forecast to grow particularly strongly at c.10% per year for automotive, engineering and construction applications
- At present the consumption gap is being met by imports that amounted to 3.5m tonnes in 2007 (56% market share)
- Severstal’s investment in the mini-mill project at Piombino to benefit from the current opportunities in the domestic market

## Market for HRC and CRC in Italy



Source: National Association of Italian Steel Producers



Source: Laitner for Arvedi and Boston Consulting Group

# Evolution of Balanced Product Mix at Piombino

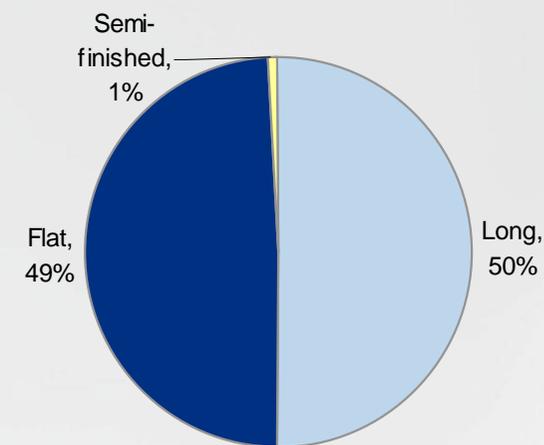
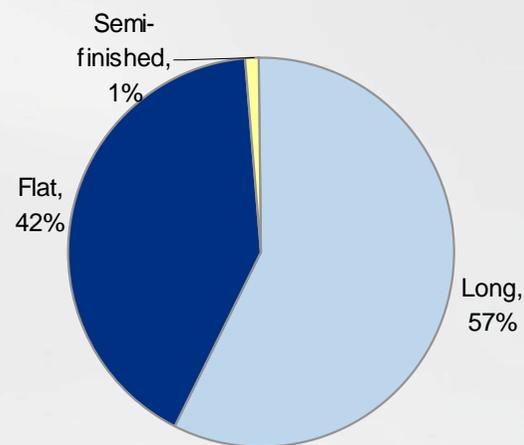
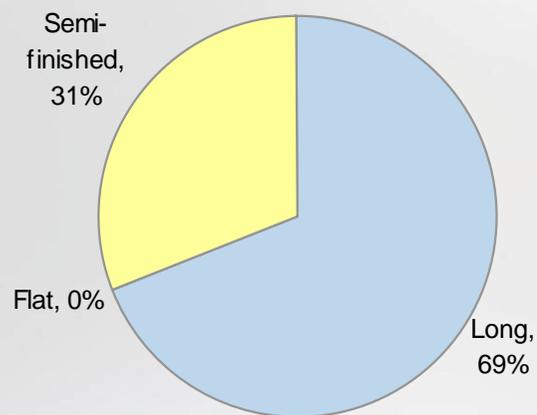
2007 Production



2011E Production



2015E Production



Source: Company estimates.

# Piombino's Mini-Mill Project to Tap this Opportunity

- A flat product mill complex
- Production 1.5m tonnes/year
- Equipped with a Danieli single strand thin slab caster with the capacity to produce from 90 mm thick slabs (110 mm at mould exit) 900–1,600 mm in width and finished product thickness 1.0–15.0 mm
- Product mix includes low, medium and high carbon grades, HSLA and peritectic

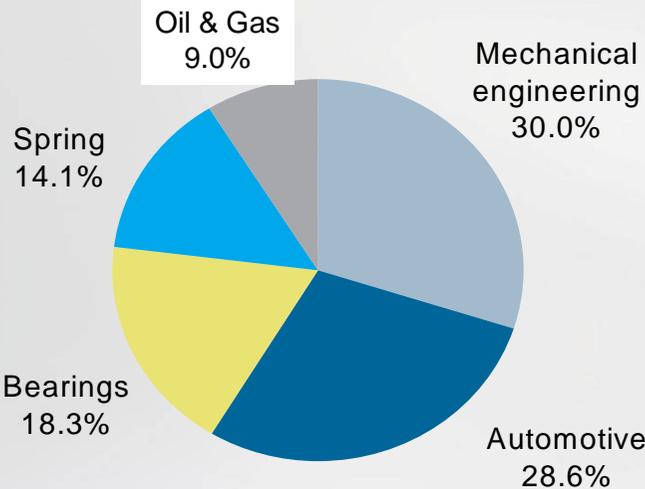


- European leader in long specialty steel products
- EAF-based producer with 1.2m tonnes of special bar quality (SBQ) steel production out of four plants in France
- Niche market in Europe
- Well established and stable customer base
- Strategic location of sites
- Stable cash flows with majority of sales sold on long-term contracts
- 3,391 employees

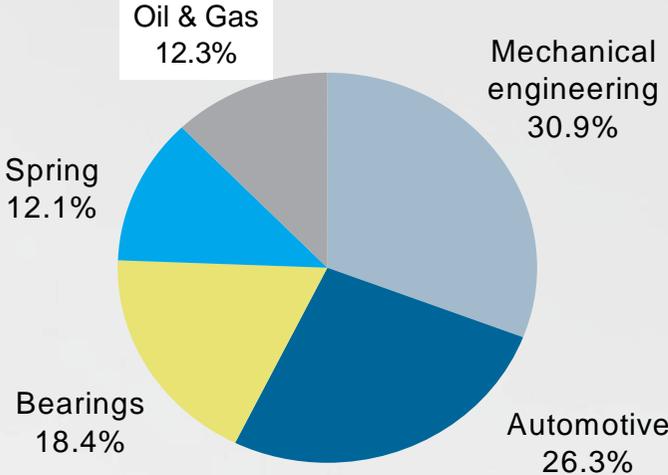


# Ascometal Revenue and Customer Mix

Volumes (2007)  
Market, %



Revenues (2007)  
Market, %



Source: Company Information.

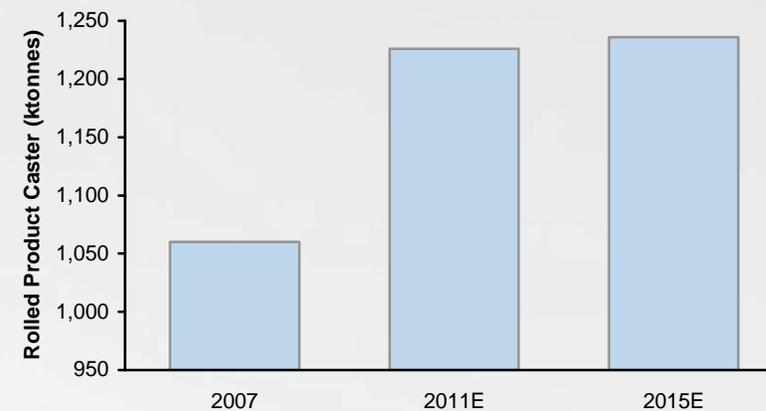
# Ascometal – Organic Growth and Transformation

- Fos sur Mer – continuous caster start up in 2010
- Alleward – hot end closure
- Hagondange – Rolling mill modernization
- Capacity increase from 1.2m tonnes to 1.4m tonnes in 2015

Ascometal Electric Arc Furnace Capacity



Ascometal Rolled Products Capacity



Source: Company estimates.

## Summary - Europe

- Continue our growth in Western Europe
- Increase share of finished products and expand the product portfolio through focused capital expenditure programme
- Diversify customer base and pursue developments in new, high-growth markets such as Eastern Europe and the Middle East
- Increase share of customized high-quality products (automotive, machinery, appliances and rail)
- Strengthen cost position in Italy and Western Europe

## Summary - International

- Large and growing business in North America and Europe to balance Russian operations and provide exposure to attractive and sophisticated end markets
- North American scale and product mix significantly enhanced and optimisation well underway
- European business presents selected opportunities and leading market positions
- Continue to build vertical integration