

# *Presentation of the Consolidated Financial Results for 2006*

*2 April 2007*

**SeverStal**

# Agenda

- » *Introduction*
- » *Detailed financials*
- » *Outlook*
- » *Q&A*
- » *Appendices*

## Disclaimer

***These materials may contain projections and other forward-looking statements regarding future events or the future financial performance of OAO SeverStal (SeverStal). You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might”, the negative of such terms, or other similar expressions. SeverStal wishes to caution you that these statements are only predictions and that actual events or results may differ materially. SeverStal does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Factors that could cause the actual results to differ materially from those contained in projections or forward-looking statements of SeverStal may include, among others, general economic conditions in the markets in which SeverStal operates, the competitive environment in, and risks associated with operating in, such markets, market change in the steel and mining industries, as well as many other risks affecting SeverStal and its operations.***

## » **Introduction**

- *Alexei Mordashov / CEO, SeverStal*

# 2006 Highlights

## » **Positive year of growth for Severstal**

- Consolidation of steel and mining assets under the Severstal umbrella
- Investments in Severgal and coating line yielding good financial result
- Izhora pipe mill commissioned in July

## » **GDR listing on LSE in November 2006**

## » **New corporate governance structure in place**

## » **\$1,244 million invested in volume growth, efficiency and product mix improvements**

## » **A record \$12,423 million in revenues, up 7.3% compared with 2005 on pro-forma basis**

## » **EBITDA marginally down at \$2,987 million compared with \$3,054 million in 2005 on pro-forma basis**

- Weaker mining segment performance
- H2 2006 stronger than H1 2006 in all segments

## » **Net profit reduced to \$1,181 million from \$1,696 million in 2005**

- Effected by one-off events, that are behind

## » **Healthy start in 2007 and strong outlook for the whole year**

## » **Solid platform for future growth**

# Key numbers

(\$ million unless otherwise stated)

	2005	2006	Change, y-o-y
Revenues	10,432	12,423	19.1%
<b>Revenues on pro-forma basis</b>	<b>11,574</b>		<b>7.3%</b>
Profit from operations	2,320	1,954	(15.8%)
Operating margin, %	22.2%	15.7%	
EBITDA	2,853	2,987	4.7%
<b>EBITDA on pro-forma basis</b>	<b>3,054</b>		<b>(2.2%)</b>
EBITDA margin, %	27.3%	24.0%	
Net profit	1,696	1,181	(30.4%)
Net margin, %	16.3%	9.5%	
EPS, \$	1.86	1.27	(31.7%)
DPS, \$	0.53	0.39	(26.4%)

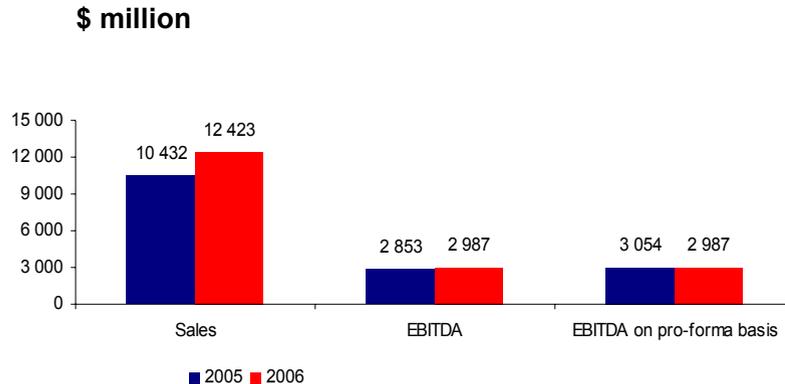
*Note: Financial results for Lucchini for 2005 consolidated from end of April 2005*

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## » ***Detailed financials***

- *Mikhail Noskov / CFO, SeverStal*

# 2006 Financial Summary



- » *Financial result of Lucchini for 2005 was consolidated beginning from end of April 2005, that resulted in EBITDA of US\$2,853 million*
- » *On pro-forma basis EBITDA for 2005 was US\$3,054 million*

## » *Sales growth supported by*

- *Improved product mix*
- *Higher average prices*
- *Increase in steel and mining products volumes*

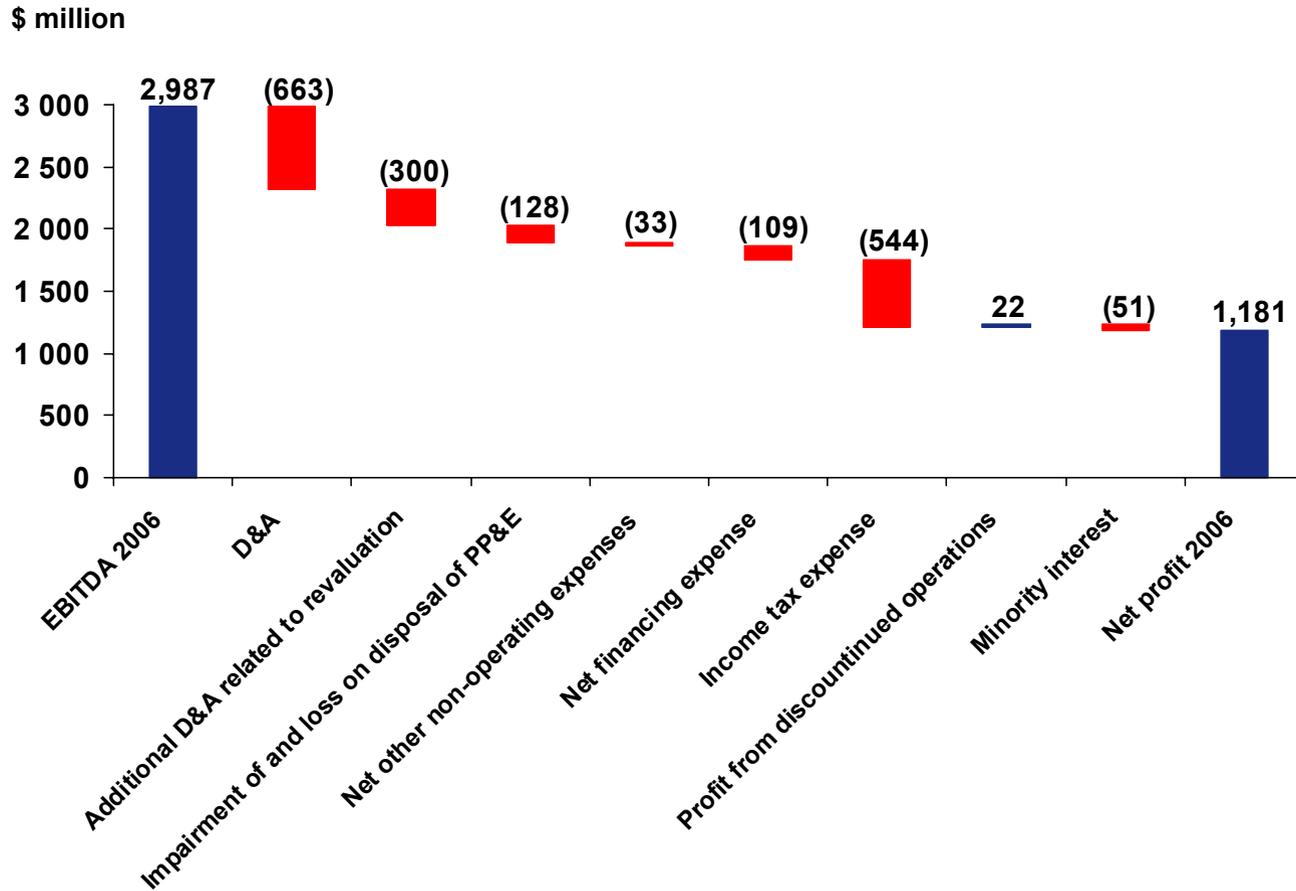
## » *The negative effect on EBITDA of*

- *Higher prices for scrap, alloys, energy and wages*
- *Increase in selling, general and administrative expenses and distribution costs*

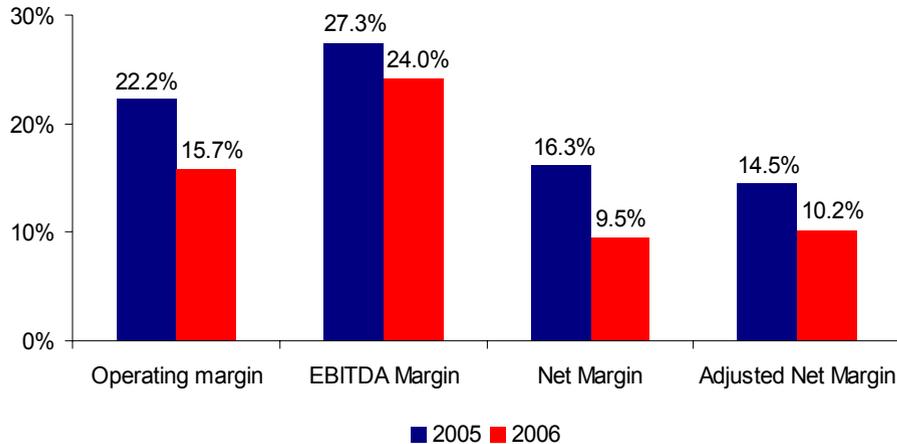
## » *Was offset by*

- *Improved efficiency, technological optimisation and internal logistics*
- *Strong market growth on the Russian steel market in 2H 2006*

# EBITDA – Net Profit 2006



# 2006 Group Profitability



*Note: Adjusted net margin excludes impairment of PP&E, gain on restructuring of tax liabilities and negative goodwill and minority interest*

## » **Operating margin suffered decline**

- *Cost inflation in energy, raw materials and labour*
- *Depreciation increased by \$300 mln as a result of revaluation of PP&E in Russian steel segment*

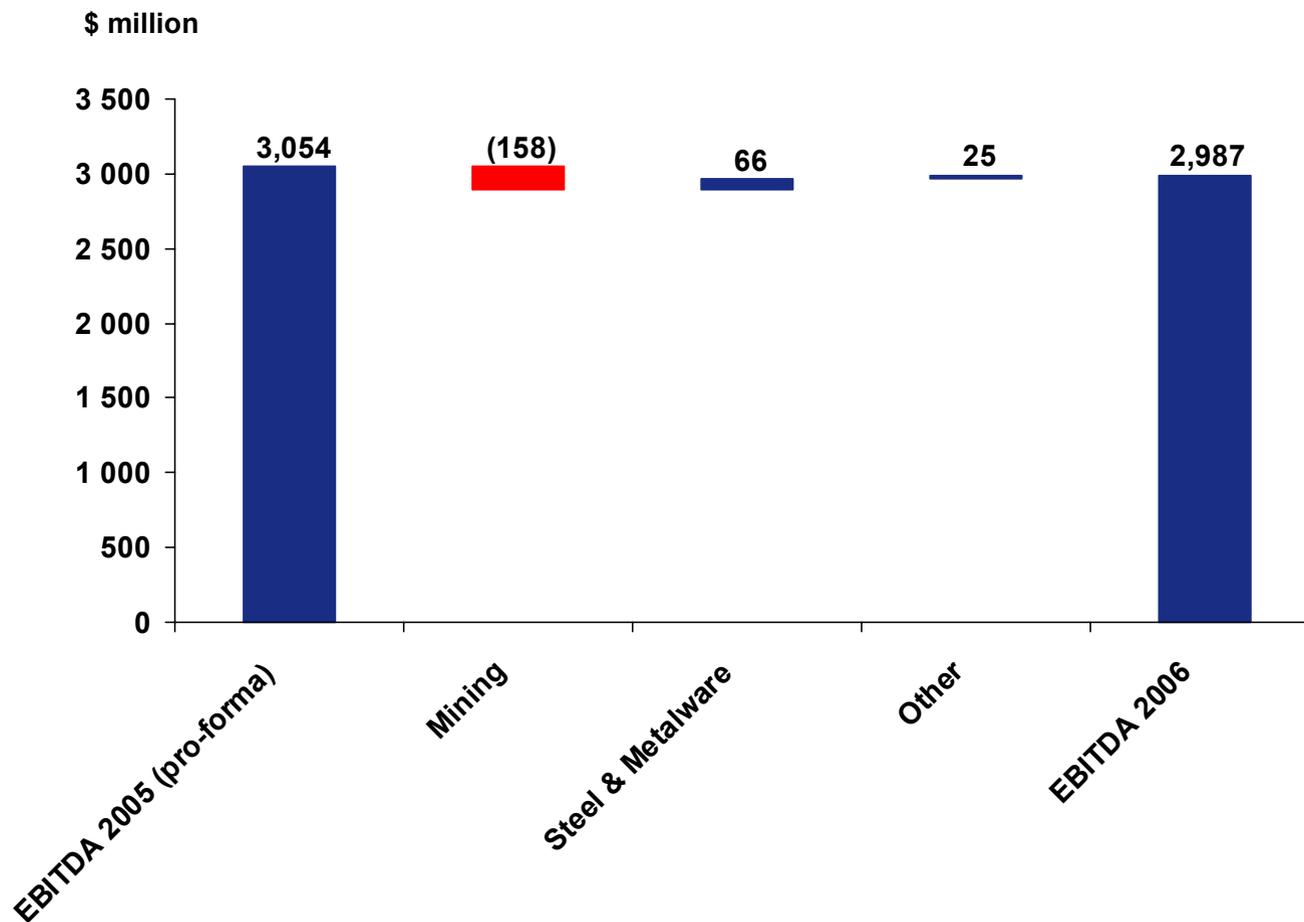
## » **Lucchini consolidation affected margins**

## » **But operations in North America showed growth in profitability**

- *Developed markets are more disciplined*
- *Resilience to cyclical based on value added products strategy*

## » **Drop in net profit margin mainly due to non-operating items**

# EBITDA Dynamics by segments



# Segmental results: revenue breakdown

## Revenues by segment (\$ million)

	2005	2006	Change, y-o-y
Russian Steel	5,964	6,274	5.2%
SNA	1,823	1,868	2.5%
Lucchini*	1,848	3,357	81.7%
<b>Lucchini on pro-forma basis</b>	<b>2,991</b>		<b>12.2%</b>
Mining	1,372	1,464	6.7%
Metalware	619	839	35.5%
Intersegment	(1,193)	(1,381)	n.a.
<b>Total</b>	<b>10,432</b>	<b>12,423</b>	<b>19.1%</b>
<b>On pro-forma basis</b>	<b>11,574</b>		<b>7.3%</b>

*\*Financial results for Lucchini for 2005 consolidated from end of April 2005  
On a pro-forma basis revenues of Lucchini increased by 12.2% in 2006 compared with 2005*

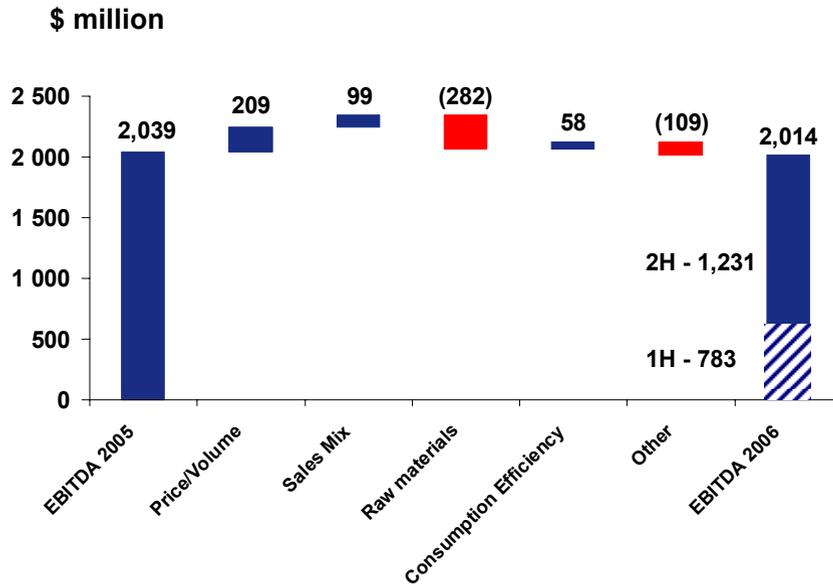
# Segmental results: EBITDA breakdown

## EBITDA by segment (\$ million)

	2005	2006	Change, y-o-y
Russian Steel	2,039	2,014	(1.2%)
SNA	89	143	60.7%
Lucchini*	134	336	150.7%
<b>Lucchini on pro-forma basis</b>	<b>332</b>		<b>1.2%</b>
Mining	598	440	(26.4%)
Metalware	12	49	308.3%
Other and intersegment	(19)	5	n.a.
<b>Total</b>	<b>2,853</b>	<b>2,987</b>	<b>4.7%</b>
<b>On pro-forma basis</b>	<b>3,054</b>		<b>(2.2%)</b>

\* Financial results for Lucchini for 2005 consolidated from end of April 2005  
 On a pro-forma basis EBITDA of Lucchini was 1.2% higher in 2006 compared with 2005

# Russian Steel Operations



## » Strong Russian market boosted EBITDA in 2H 2006

- 2H 2006 EBITDA up 57.2% compared to 1H 2006
- Russian domestic average selling price up 4.7% y-o-y
- Share of domestic sales increased from 54% in 2005 to 69% in 2006
- Increased costs related to scrap consumption

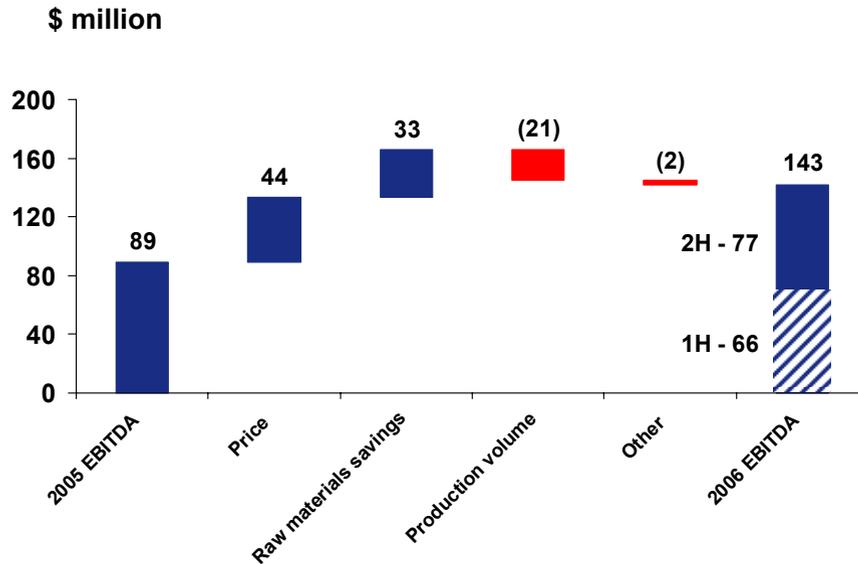
## » Increase in EAF production

## » Higher costs for alloys, scrap and energy

## » But consumption efficiency improvements

In US\$ mln	2005	2006	Change
Revenues	5,964	6,274	5.2%
Profit from operations	1,776	1,422	(19.9%)
Operating Margin	29.8%	22.7%	
EBITDA	2,039	2,014	(1.2%)
EBITDA Margin	34.2%	32.1%	

# Severstal North America



» **EBITDA margin increased from 4.9% in 2005 to 7.7% in 2006**

» **Firm management control results in strong performance**

- More balanced sales between automotive and non-automotive customers
- Volume cuts helped to support spot prices
- Average revenue rates higher by \$15 per tonne in 2006 compared to 2005

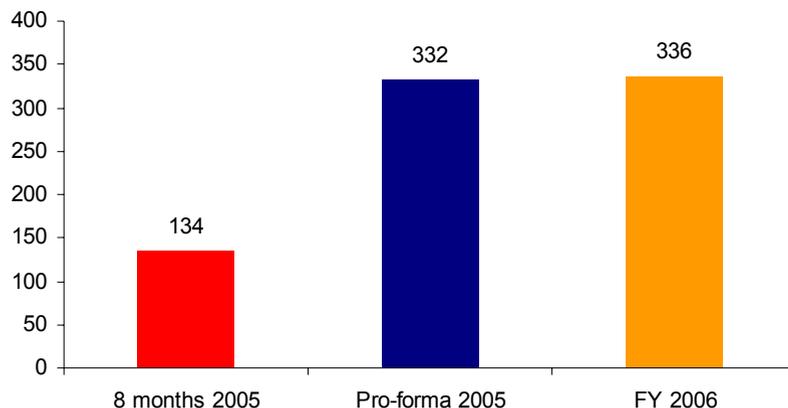
In US\$ mln	2005	2006	Change
Revenues	1,823	1,868	2.5%
Profit from operations	82	134	63.4%
Operating Margin	4.5%	7.2%	
EBITDA	89	143	60.7%
EBITDA Margin	4.9%	7.7%	

» **Operational costs under strong management control**

- Increase in zinc and pellets costs balanced by favourable coke and scrap pricing
- Reduction in selling, general and administrative expenses by 6.7%

# Lucchini

EBITDA, \$ million

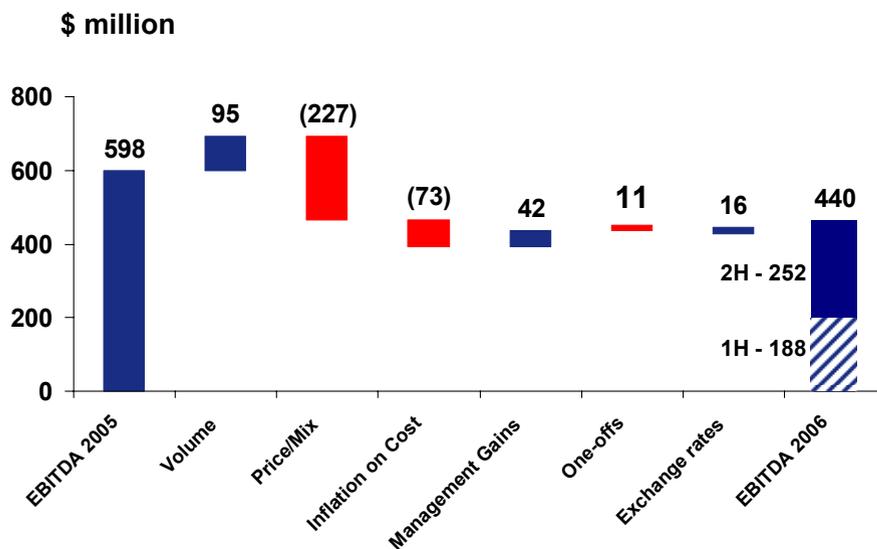


In US\$ mln	2005	2006	Change
Revenues	1,848	3,357	81.7%
Profit from operations	53	208	292.5%
Operating Margin	2.9%	6.2%	
EBITDA	134	336	150.7%
EBITDA Margin	7.3%	10.0%	

**Note:** Financial results for Lucchini for 2005 consolidated from end of April 2005  
 On a pro-forma basis revenues of Lucchini increased by 12.2% in 2006 compared with 2005 and EBITDA was 1.2% higher in 2006 compared with 2005

- » **Financial results for Lucchini for 2005 consolidated from beginning May 2005**
- » **On a pro-forma basis, Lucchini**
  - Increased revenues by 12.2% in 2006 y-o-y
  - EBITDA 1.2% higher y-o-y
  - Stable EBITDA margin
- » **Average selling price stable y-o-y**
  - Ascometal niche average selling price 3.3% higher
  - In Piombino average selling price down by 0.7%

# Russian Mining Operations



- » **EBITDA declined primarily due to lower contract prices in 2006**
- » **85% of coal and 70% of pellet and concentrate needs are supplied internally**
- » **Inflation on key costs items**
- » **Partially balanced by management gains**

- 17% productivity increase resulted in \$32 million payroll cost savings
- Per tonne consumption of energy in Vorkuta decreased by 22%
- Diesel consumption per tonne in Karelsky Okatysh down by 9%

» **Volume growth targeted at export markets**

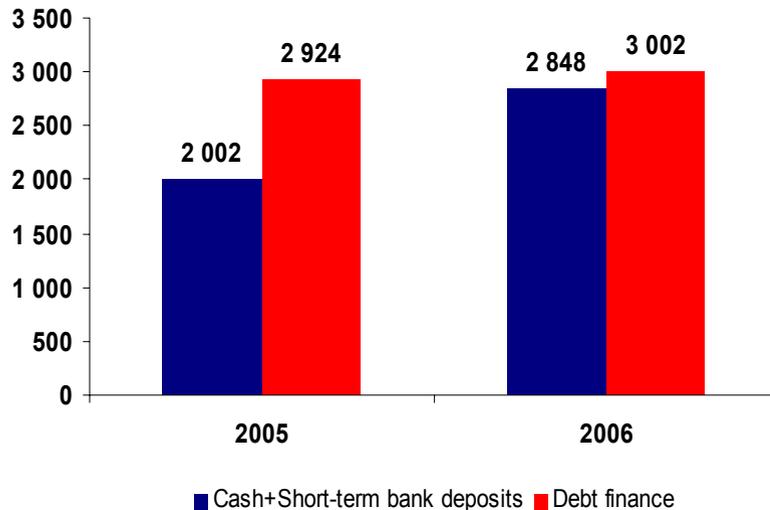
» **Industrial safety improved**

- Industrial accidents down by 40%, fatalities down 37%
- Accident ratio per 1,000 employees down from 2.9 in 2005 to 1.9 in 2006

In US\$ mln	2005	2006	Change
Revenues	1,372	1,464	6.7%
Profit from operations	438	168	(61.6%)
Operating Margin	31.9%	11.5%	
EBITDA	598	440	(26.4%)
EBITDA Margin	43.6%	30.1%	

# Capital structure

Cash position and total debt,  
\$ million



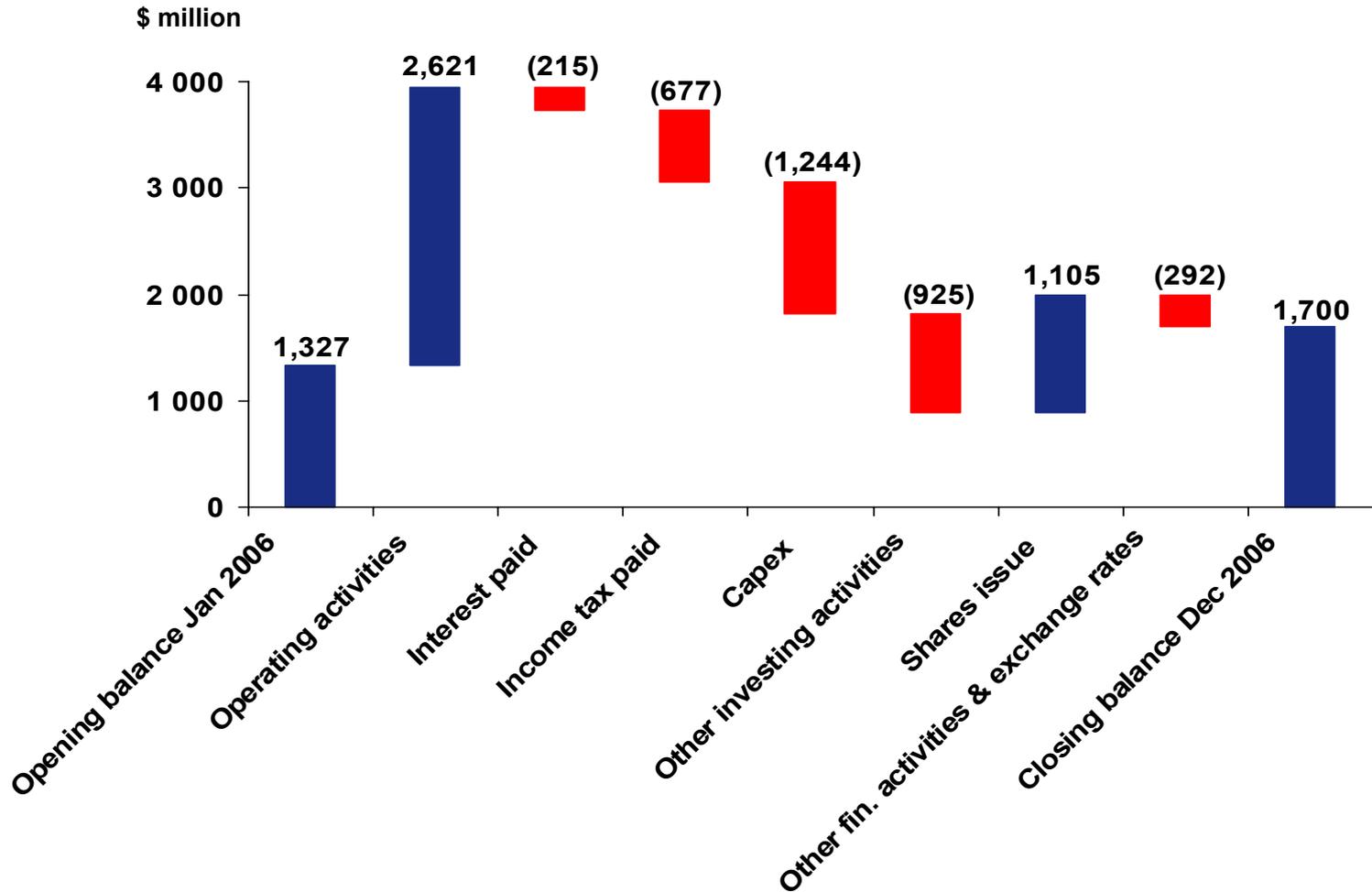
## » Conservative credit ratios

- Net debt down from US\$922 million to US\$154 million
- Maximum net debt/EBITDA < 2x throughout the cycle

## » Company has the balance sheet capacity and cash flow generation to

- Fund modernisation programme
- Pursue value enhancing M&A opportunities
- Offer competitive dividend payout

# Movement in cash & cash equivalents



## » **Outlook**

- *Alexei Mordashov / CEO, SeverStal*

# SeverStal: strong platform for future growth

## » *Market leadership – number one Russian company by*

- *EBITDA*
- *Steel volume*

## » *Russian leader in global industry consolidation*

## » *Successful turnaround stories in SNA and Lucchini*

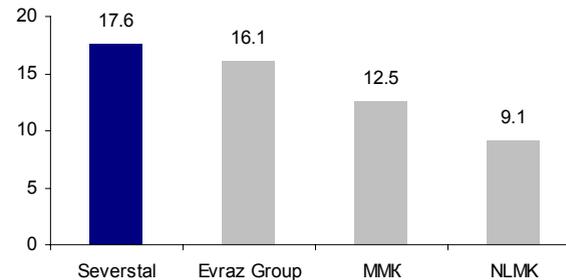
## » *Best practice sharing*

## » *Balanced asset structure*

- *Operating facilities in Russia, USA, Italy, France*
- *Core markets: Russia, Europe, North America*
- *High degree of vertical integration*

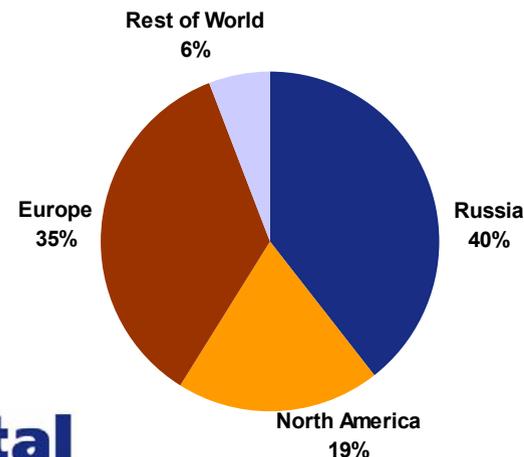
## *Leading Russian steel producers in 2006*

mln tonnes



Source: Companies' reports

## *SeverStal: favourable geographical breakdown of revenues in 2006*



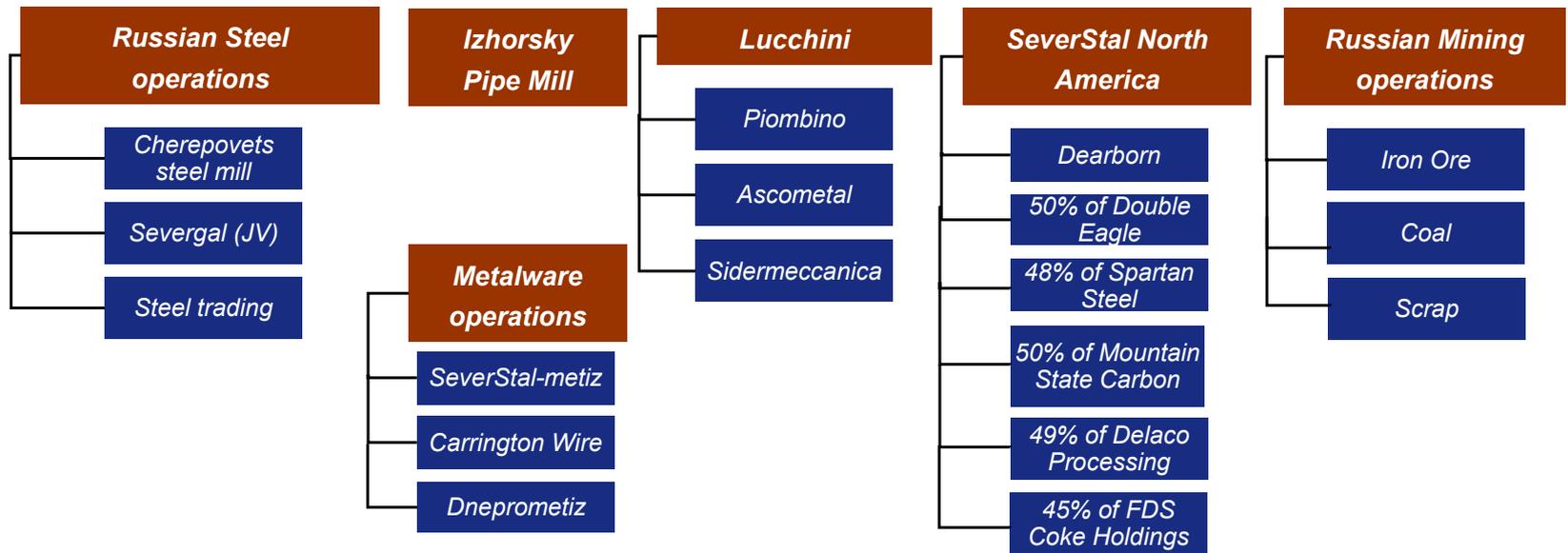
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# IPO Results

- » **Value growth as a key objective**
- » **Free float increased from 10.6% to 17.7%**
  - *Broad representation of financial investors by type of investment strategy and geographical distribution*
  - *The largest Russian steel company by free-float*
- » **High liquidity equity**
  - *Included in MSCI Emerging Markets and MSCI Russia indices in March 2007*
  - *\$2.2 billion of liquid stock for portfolio investors*
- » **Adherence to Western standards of corporate governance**
  - *Appointment of five independent non-executive directors, including an independent Chairman*

# Consolidation of steel and mining interests

- » *All existing steel and mining interests are consolidated under SeverStal umbrella*
- » *SeverCorr to be included into the consolidation perimeter after its start-up later this year*



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# Positive outlook for Severstal in 2007

## » **Strong start for 2007**

- *Favourable pricing in January and February*
- *Strong demand in Russia*
- *Good prospects for Izhora pipe mill*

## » **One-off events behind in 2006**

- *Revaluation of PP&E*
- *Suspension in operations of cold-roll shop in Cherepovets for modernisation*

## » **Solid outlook for steel prices for 2007 in all major regions**

## » **Production discipline in the SeverStal core markets**

## » **Major investments done**

- *Relining of BF#5 in Cherepovets*
- *Izhora pipe mill*
- *Severgal*
- *Coating line*

## » **Rising iron ore prices re-inforce integrated players**



**SeverStal  
strategy**

» **Shareholder value creation through**

- *Retaining a position of one of the top global steel companies by profit*
- *Organic growth and disciplined approach to M&A*
- *Vertical integration and international diversification*
- *Focus on high value-added and niche steel products*
- *A strong global platform for profitable growth*

*Thank you*

## » *Appendices*

# Summary of Balance Sheet

\$ million

	As at December 31, 2005	As at December 31, 2006
<b>Current Assets</b>	5,992	7,493
<b>Non-current Assets</b>	9,342	11,313
<b>Total Assets</b>	15,334	18,806
<b>Current Liabilities</b>	3,162	2,955
<b>Non-current Liabilities</b>	3,775	4,173
<b>Shareholders Equity</b>	8,397	11,678
<b>Total Liabilities and Shareholders Equity</b>	15,334	18,806

# Summary of Income Statement

\$ million

	2005	2006	Change
<b>Sales</b>	10,432	12,423	19.1%
<b>Cost of Sales</b>	(6,833)	(8,943)	30.9%
<b>Profit from Operations</b>	2,320	1,954	(15.8%)
<b>Operating Margin</b>	22.2%	15.7%	
<b>EBITDA</b>	2,853	2,987	4.7%
<b>Net Profit</b>	1,696	1,181	(30.4%)
<b>Net Margin</b>	16.3%	9.5%	
<b>EPS, \$</b>	1.86	1.27	(31.7%)

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# Summary of Cash Flow Statement

\$ million	2005	2006
Profit before financing and taxation	2,514	1,862
Cash generated from operations	2,691	2,621
Interest paid (excluding banking operations)	(199)	(215)
Income tax paid	(557)	(677)
Net Cash Flow from operating activities	1,934	1,729
Cash Flow used for investing activities, including	(1,178)	(2,169)
Additions to PP&E	(1,204)	(1,244)
Cash provided from/ (used for) financing activities, including including	(449)	726
Proceeds from share issues	-	1,105
Effect of exchange rates on cash and cash equivalents	(71)	86
Net increase in cash and cash equivalents	237	373
Cash & cash equivalents at beginning of the year	1,090	1,327
Cash & cash equivalents at end of the year	1,327	1,700