

# SeverStal

## Investor Day



*16 February 2007*

**SeverStal**

- » ***Business Model and Strategic Priorities***
- » **Q&A**
- » ***Coffee break***
- » ***Corporate Governance***
- » **Q&A**
- » ***Conclusion***

# 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.***

## » ***Business Model and Strategic Priorities***

- *Alexei Mordashov / CEO, SeverStal*
- *Mikhail Noskov / CFO, SeverStal*

# The Severstal vision

## *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*

# Global environment in 2007: favourable for integrated steel makers

» **Strong price performance in 2006**

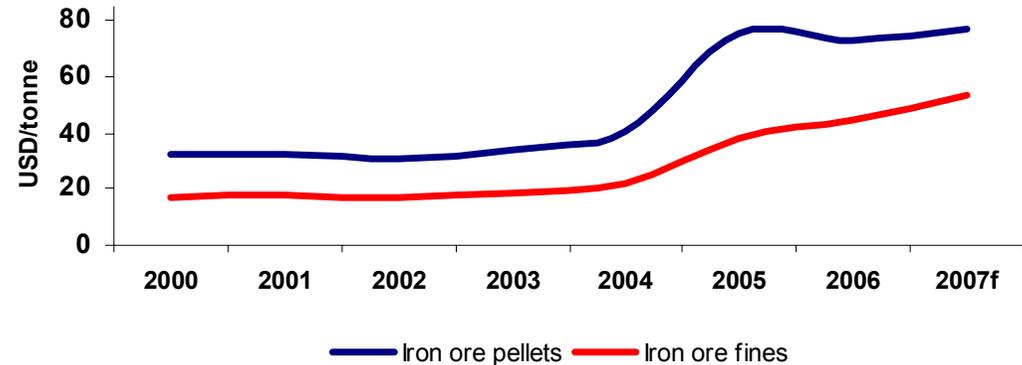
» **Solid outlook for 2007 in all major regions**

» **Production discipline in the Severstal core markets demonstrated again in 2006**

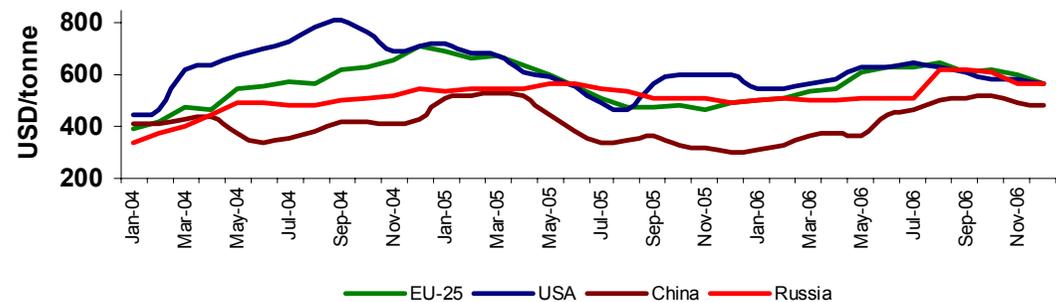
» **Rising iron ore prices reinforce integrated players**

» **Excellent domestic market performance – Russian steel consumption increased significantly in 2006, driven by:**

- Construction
- Infrastructure
- Energy



Source: SBB



Source: SBB, GFMS, CRU, WSD

# Severstal's differentiating characteristics

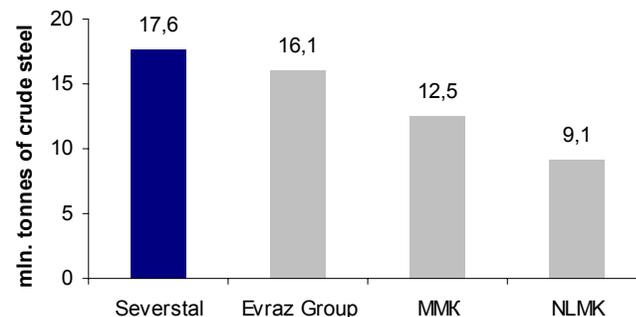
## » **Market leadership – number one Russian company by:**

- *Steel volume*
- *Metalware volume*
- *EBITDA*
- *Net profit*

## » **Balanced assets structure**

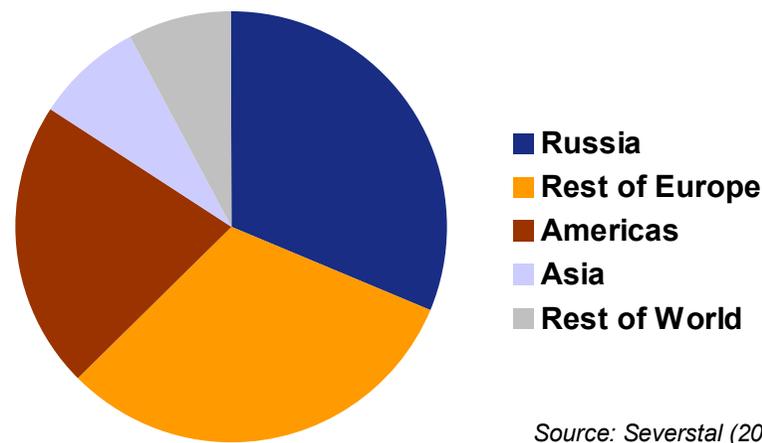
- *Operating facilities in Russia, USA, Italy, France, United Kingdom, Ukraine*
- *Core markets: Russia, North America, Europe*

## **Major Russian steel producers (2006)**



Source: Companies' reports

## **Revenues breakdown by region**



Source: Severstal (2005)

# Severstal's differentiating characteristics

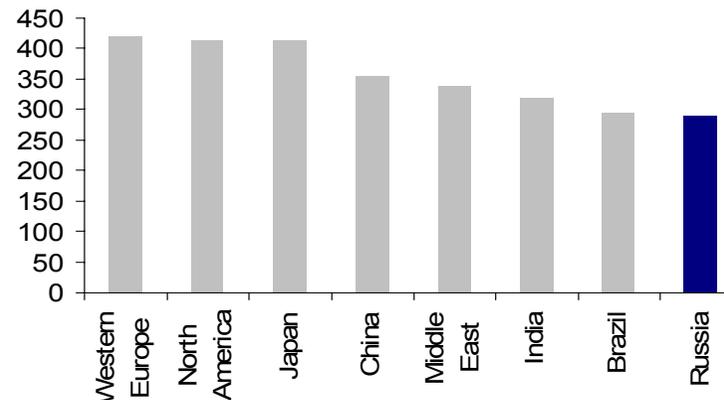
## » Earnings resilience

- Low-cost production of Russian assets
- Raw materials self-sufficiency in Russia: 106% in iron ore and 113% in coking coal

## » Product differentiation

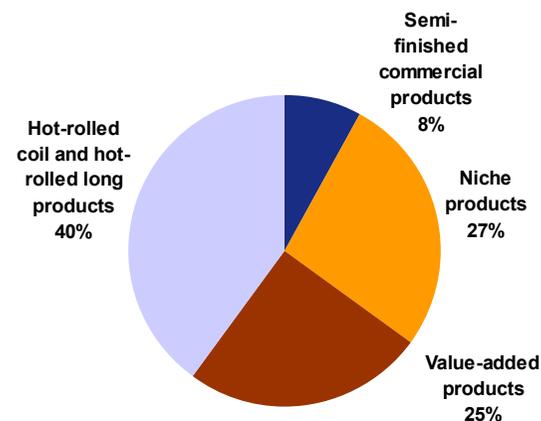
- 52% of product portfolio – high value-added and niche steel products

## Hot-rolled band operating costs, USD/tonne (2006E)



Source: Severstal (2005)

## Revenues breakdown by product group



Source: Severstal (2005)

# Value creation through high-margin steel niches

Protected non-commodity markets

Price stability



Low competition

High level of concentration

## Russia

### » 25% of product portfolio

- *Automotive sheet*
- *API plates*
- *Large-diameter pipes*
- *Non grain-oriented electrical steel*
- *Heavy plates for shipbuilding*
- *High strength and alloyed steels*

## USA

### » 45% of direct sales to automotive industry

- *+30% indirect sales to carmakers*
- *Special high-carbon and alloy steels*

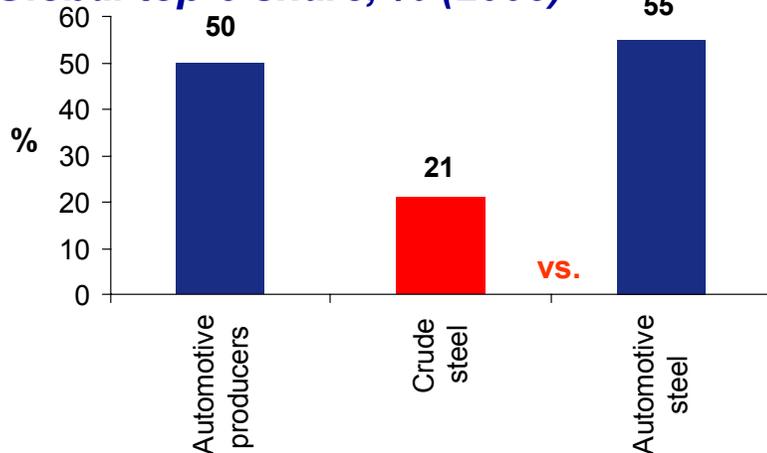
## Europe

### » 25% of product portfolio

- *Rails*
- *Engineering steels*
- *Special quality bars and wire-rod*
- *Rolling stock materials*  
*(wheels and wheel-sets)*

# Benefits of niche markets: SNA automotive steels case study

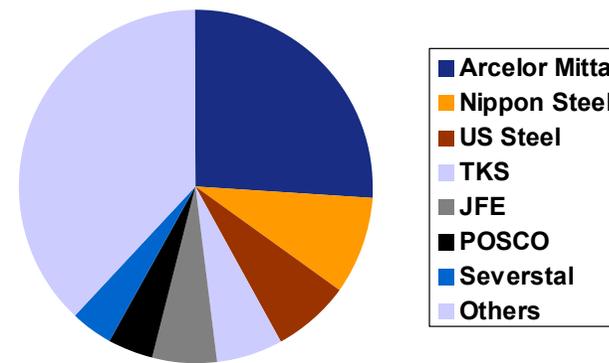
**Global top-5 share, % (2005)**



Source: IISI, OICA, Hatch

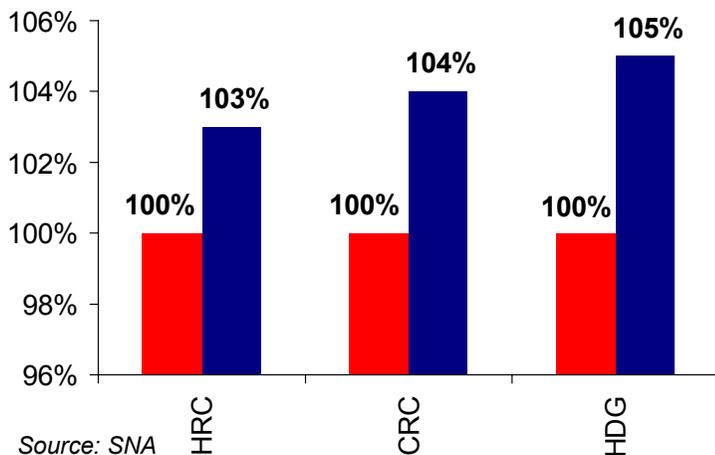
**World automotive steels production (2005)**

100 % = 64,5 mln. tonnes



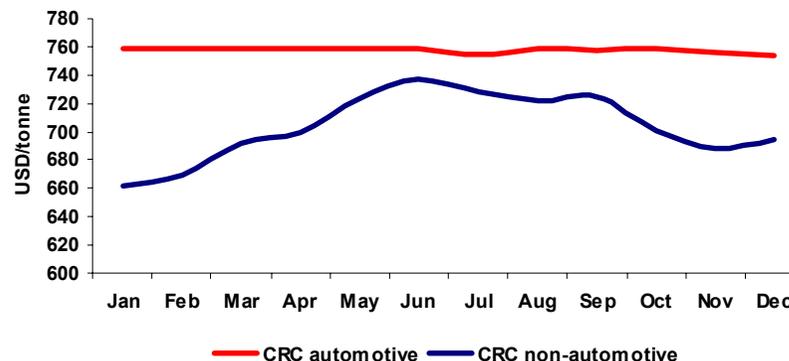
Source: Hatch

**SNA's automotive steels contract prices (2006-2007), % increase to previous contract**



Source: SNA

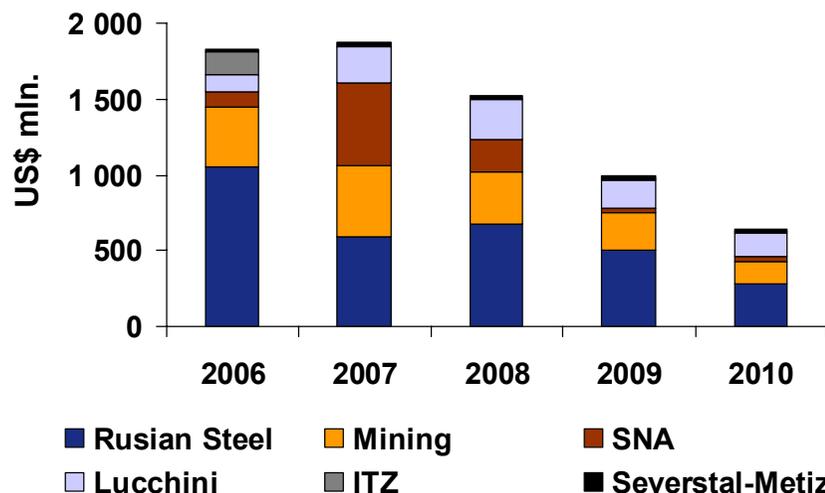
**Price stability for niche products: SNA's CRC sales prices (2006)**



Source: SNA

# Organic growth: capex driving profitability

## Total capex of Severstal between 2006-2010 - US\$6.9 bn



Source: Severstal (2006)

**Cherepovets  
Steel Mill**

- » **Capacity expansion in 2005-2010: 9,9 – 11 mt of finished products**
  - Focus on application for fast growing oil & gas, construction and automotive industry

- » **Assets modernization**
- » **Costs improvement**
- » **Product differentiation**
- » **Volume growth through operational assets efficiency increase**

- » **Increased production of high-margin steel niches**
- » **Capex ROI must exceed hurdle rates of 20% to 30%, depending on a project**

### Product mix improvement

- Increased production of: API plate, automotive steels, cold-rolled and galvanized sheets, pipes
- New products: high-strength steels, automotive-quality galvanized sheet, color coated sheet, larger diameter pipes

**SeverStal**

# SNA: investing in production efficiency and volume growth

- » **Capex 2006-2010: \$931 million**
- » **Productivity improvement and efficiencies by 2010 bring \$ 200 million a year (\$80/t at CRC level)**



- » **Capacity expansion 2005-2010:**
- » **Crude steel: 2.7 – 3.1 mt**
- » **Total steel sales: 2.9 - 3.9 mt**
  - *Focus on applications for automotive industry, appliances*



- » **Product mix improvement**
  - *Brand-new CR mill and HDG line*
  - *Modernized hot-strip mill*
  - *Advanced high-strength automotive steel grades with improved properties*

# Lucchini: capex to improve profitability

- » **Capex 2006-2010: \$ 961 million, of which \$ 468 million in Piombino**
- » **Productivity improvement and efficiencies by 2010 bring \$ 180 million a year (\$70/t at crude steel level)**



- » **Capacity expansion 2005-2010:**
- » **Crude steel: 2.3 – 3.0 mt**
- » **Long products sales: 1.8 mt**
- » **Semi-finished sales: 0.9 mt**
  - Focus on special long products
  - Effective semis utilization



- » **Product mix improvement**
  - 600 kt of semis converted into high value-added products
  - 300 kt of commodity long converted into niche long products (Q&T bars, rails, tire cord)

# Mining: volume expansion and efficiency improvements

- » **Capex 2006-2010: \$ 1,589 million**
- » **Productivity improvement and efficiencies by 2010 bring \$100 million a year**



- » **Capacity expansion 2005-2010:**
- » **Iron ore: 12,8 – 16 mt**
- » **Coal concentrate: 8,7 – 12,5 mt**



- » **Productivity and efficiency improvement by 2010**
  - *De-bottlenecking*
  - *Energy savings*
  - *40 % headcount reduction*
  - *Coal washing plant modernization*

# Strategy for sustained, profitable growth

Severstal can rely on two growth engines to deliver value creation

## *Organic growth*

- » *Increase in operational assets efficiency*
- » *Increase production of high value-added products*
- » *Expand product offering in fast-growth markets in Russia*
- » *Create value in downstream*
- » *Maintain global cost leadership in Russia*
- » *Be among regional cost leaders in USA and Europe*

## *M&A*

- » *Consolidate niche and value-added markets worldwide*
- » *Increase market share in core regions: Russia, North America, Europe*
- » *Create profitable combinations of low-cost upstream and high-value-added downstream*
- » *Leverage global platform for synergies*
- » *Transfer technical capabilities to developing markets*

## » ***Disciplined M&A strategy***

- *Dedicated and experienced M&A team*
- *Geographical diversification*
- *Access to high value-added products/markets*

## » ***Management efficiency programmes***

- *TOP – Total Optimization of Performance*
- *Turnaround teams trained by Corporate University*

## » ***Distinct integration philosophy***

- *Motivation and empowerment of local management teams*
- *New agreements with trade unions and customers*

## » ***Corporate infrastructure to extract synergies***

- *Logistics coordination of major commodities strategic purchasing*
- *Ongoing best-practice sharing and benchmarking through COO organization*

# Emerging markets pose major opportunities for steel use

## Latin America

- » *Low costs*
- » *Access to raw materials*
- » *Good steel consumption growth*
- » *Logistical position to serve North American customers*

*Leverage raw materials and low-cost semis to supply North American operations*

## China

- » *World-leading rates of both consumption and production growth*
- » *Emerging overcapacity in commodity products*
- » *High industry fragmentation with potential for consolidation*
- » *Unsatisfied demand for high-quality steel and special applications*

*Leverage Severstal's capabilities to entry booming undersupplied niche markets*

## India

- » *High rates of steel consumption growth*
- » *High domestic prices*
- » *Low costs*
- » *Access to raw materials*
- » *Lack of local expertise for special steel niches*

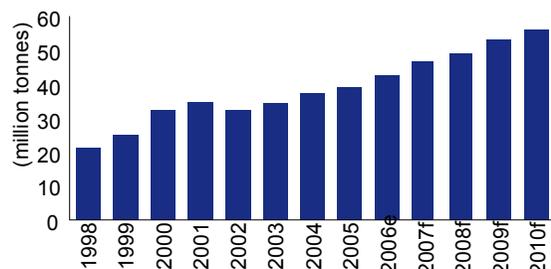
*Explore opportunities for entry through JVs with local partners*

# Excellent fundamentals for steel business in Russia

*High level of industry concentration*

*High-growth market*

*Apparent crude steel consumption, mln tonnes*

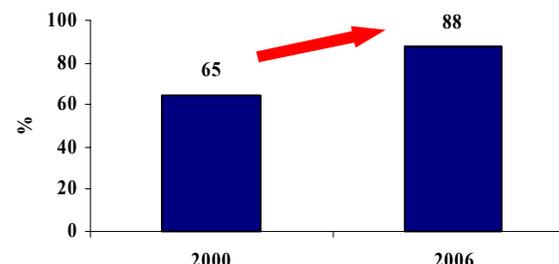


Source: IISI; CRU

*Access to raw materials*

*Price stability*

*Russian top-5 share in crude steel production, %*



Source: CRU, IISI, companies data

## *Strategic focus on key growth drivers*

### *Automotive industry*

- » **CherMK**: number 1 producer of automotive sheet in Russia
- » **Severgal** – high-quality galvanized automotive sheet
- » Prepare for localisation and leverage global platform

### *Oil & gas*

- » **Izhorsky Pipe Mill** – the only Russian producer of long large diameter pipes
- » **Mill-5000**: high-quality plate for oil&gas and shipbuilding

### *Construction*

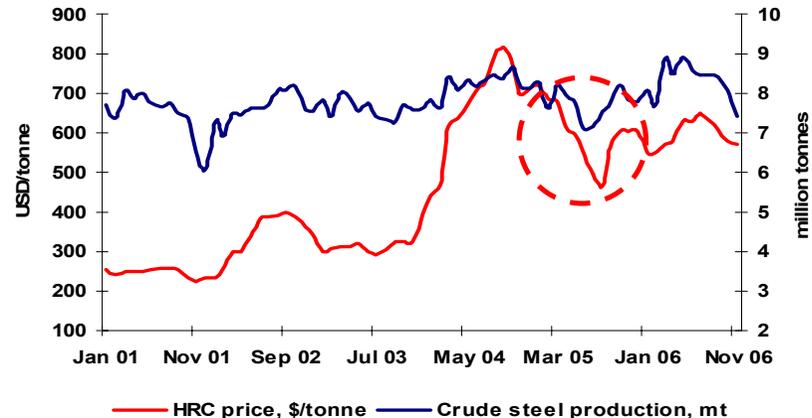
- » Currently number one growth market for **CherMK**
- » Further increase product offering for construction applications

# SeverStal

# North America remains a priority international market for Severstal

*High level of industry concentration*  
*Volume discipline*  
*Good growth rates*  
*Highest world prices*

## Pricing control in the USA



Source: IISI, SBB, GFMS, CRU, WSD

## Strategic focus on two winning models

### Automotive-dedicated integrated mill model

- » **SNA** - the 4th largest integrated steelmaker in the USA by volume
- » Automotive steels account for about 75% of SNA's sales (incl. direct and indirect sales)
- » Close proximity to raw materials and major automotive customers

### Technologically advanced mini-mill model

- » **Severcorr** - a brand-new flat-rolled steel mill
- » High-quality automotive steels
- » Low costs
- » Cutting-edge technology

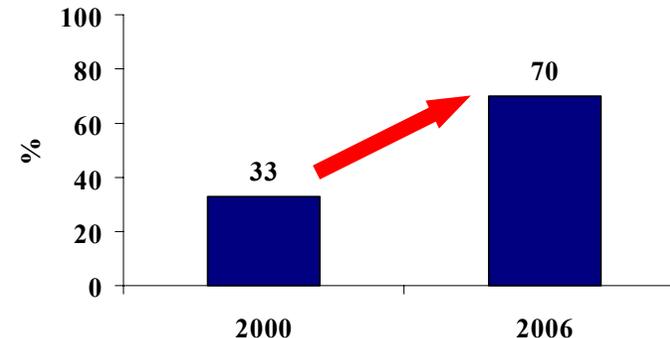
# Europe: building technological leadership in value-added niches

## European top-5 share in crude steel production, %

**Consolidated market**

**Volume control and high prices**

**R&D and technological leadership**



Source: CRU, IISI, companies data

## Strategic focus on quality and product leadership

### Rails, high-quality bars and wire rod

#### » **Lucchini Piombino:**

- 20% of WE rails market
- 90% of Italian rail market
- Italy's leader in the value-added segments of the wire rod and rails markets

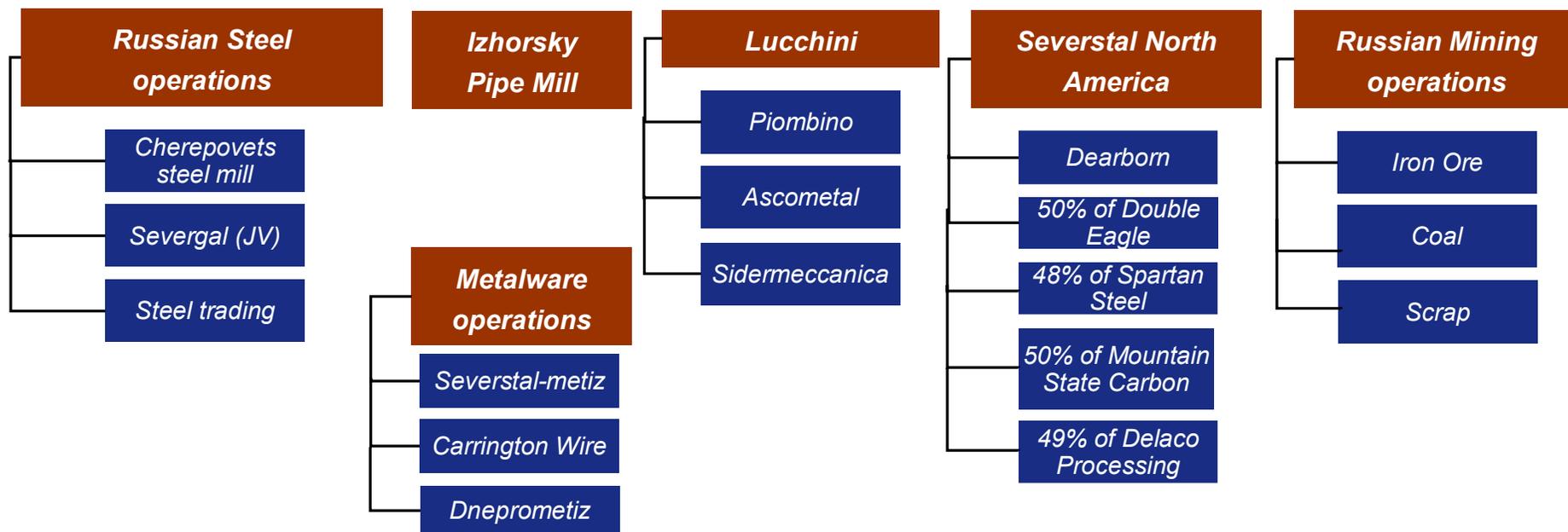
### Engineering steels

#### » **Lucchini Ascometal:**

- Number 1 producer of engineering steels (SBQ) in Europe
- Technological edge
- Stable customer base, long-term contracts

# 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*



# Related party transactions

- » *Full compliance with legal requirements applicable to approval of related party transactions*
- » *Any related party transaction with a value of up to 2% of BV of Severstal's assets must be approved by the majority of independent directors*
- » *Any related party transaction with a value of 2% or more of BV of Severstal's assets must be approved by majority of all shareholders not-interested in such transaction*

# Dividend policy

## » ***Progressive dividend policy***

- *25% minimum payout ratio of IFRS net earnings*
- *Quarterly payments*
- *The payment within 90 days after shareholder's meeting decision*

## » ***In long-term the company may increase the dividend payout ratio if the capex requirements are reduced***

- *Optimal balance between short-term return and long-term growth objectives*
- *Organic growth and acquisitions provide more attractive value creation opportunities*

## » ***Monitor best practices in dividend policy***

- *Sector trends to be analysed*
- *Prudent approach to changes*

# Capital structure

## » **Conservative credit ratios**

- *Maximum net debt / EBITDA < 2x throughout the cycle*
- *Balanced funding of M&A*

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

- *Fund Modernisation Programme*
- *Pursue value enhancing M&A opportunities*
- *Offer competitive dividend payout*

## » **High liquid equity**

- *Included in MSCI Emerging Markets and MSCI Russia indices*

***Severstal has substantial financial flexibility to execute its strategy***

# Industry-leading disclosure and reporting practices

## » **Quarterly IFRS reporting to start in 2007**

- *Reporting dates announced*
  - *FY 2006           The first week of April*
  - *1Q 2007           The last week of June*
  - *2Q 2007           The first week of September*
  - *3Q 2007           The last week of November*

## » **Reporting along both segmental and geographical lines**

- *Steel operations to be divided by Russian, North American and European (Lucchini) segments*
- *Large diameter pipes to be reported separately*
- *Metalware*
- *Mining operations*

## » **Extensive non-financial reporting**

- *Annual report in line with the best practices*
- *New website to be designed in 2007*

## » **Immediate disclosure of operational information to shareholders**

- *RNS and website announcements*

# Effective investor relations function

## Keystones of SeverStal's IR strategy

*Commitment to transparency and active engagement with investor community*



*Relations with investment community defined as one of the key responsibilities of SeverStal's top management*



*Proactive participation of top management in corporate communications:*

- *investment conferences*
- *1-on-1 meetings*
- *non-deal roadshows*
- *site visits*



*The main principles of disclosure of information:*

- *fairness*
- *adherence to UK Combined Code*
- *materiality*



*The goal is to give maximum comfort to investors in understanding the company's business targets and ability to influence management's strategic decisions*

# Conclusion

## *The Severstal vision*

### » **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*

## **Russia**

- » ***Further invest in niche and high value-added products***
- » ***Enhance product offering to Russian customer***

## **North America**

- » ***Continue further development of automotive steel business, diversify customer base***
- » ***Increase scale in the North American market***

## **Europe**

- » ***Cost reduction and further product mix improvement***
- » ***Further develop synergies on raw materials supply from Russia***

## **Emerging markets**

- » ***Leverage technical competences of European assets in Russia and future acquisitions in emerging markets***
- » ***Exploit regional competitive advantages to strengthen Severstal***

# *Your questions*

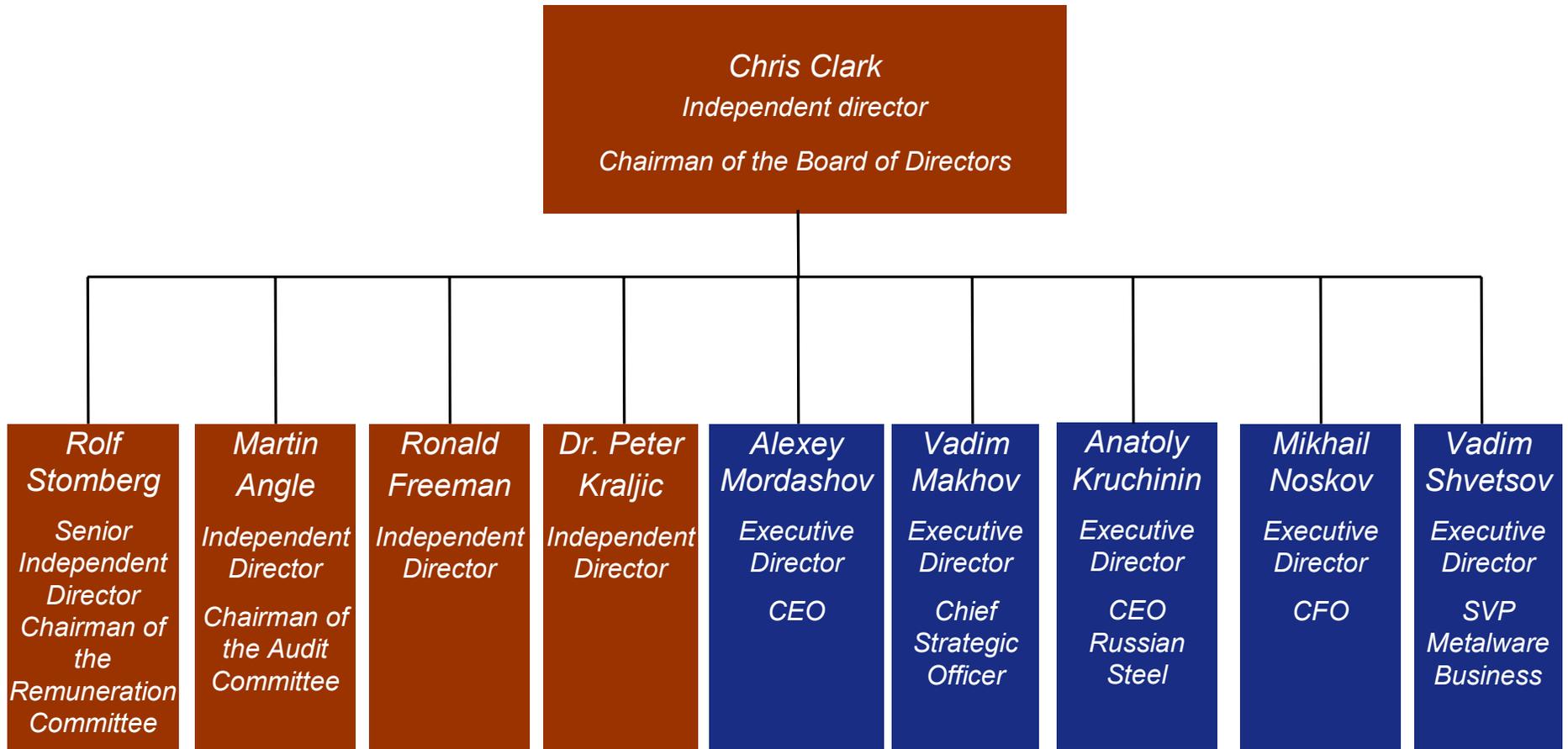
### » ***Corporate governance***

- *Chris Clark / Chairman, SeverStal*

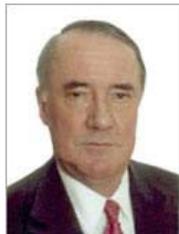
# The Board of Directors

- » *Board as a whole to play a leading role in strategy determination*
- » *Executives execute it*
- » *All Non-Executive Directors are independent under the Code*
- » *Re-election every year due to mandatory requirements of Russian law by shareholders at a General meeting*

# SeverStal's Board of directors – independent and effective



# Strong industrial record and shareholder understanding



- » **Chris Clark, Chairman of the Board**
- *Non-executive Chairman, Associated British Ports Holdings*
  - *Non-executive Chairman, Urenco Ltd*
  - *Non-executive Chairman, Wagon plc*



- » **Rolf Stomberg, Senior Independent Director**
- *Chairman of the supervisory board of Lanxess AG*
  - *Senior Independent Director, Reed Elsevier NV*
  - *Non-executive Director, Smith & Nephew*



- » **Martin Angle, Chairman of the Audit Committee**
- *Chairman of National Exhibition Centre, Birmingham, UK*
  - *Non-Executive Director, Dubai International Capital Council, University of Warwick (UK)*



- » **Ronald Freeman, Independent Non-Executive Director**
- *Board member, advisory partner/shareholder of investment bank and securities dealer, Troika Dialog*
  - *International advisory board member to Unicredit Bank*



- » **Dr. Peter Kraljic, Independent Non-Executive Director**
- *Non-Executive Director, LEK*
  - *Non-Executive Director, Wolfsburg AG*

# Interaction with management and shareholders

## » ***Induction and training for newly appointed Non-Executive Directors***

- *The first meeting of the Board was in Moscow over 2 days last week*
- *Several INEDs were in Cherepovets at EGM and top-management annual conference in December 2006*
- *Trip to Cherepovets for site visit and introduction to company in March*
- *8 board meetings planned for 2007*

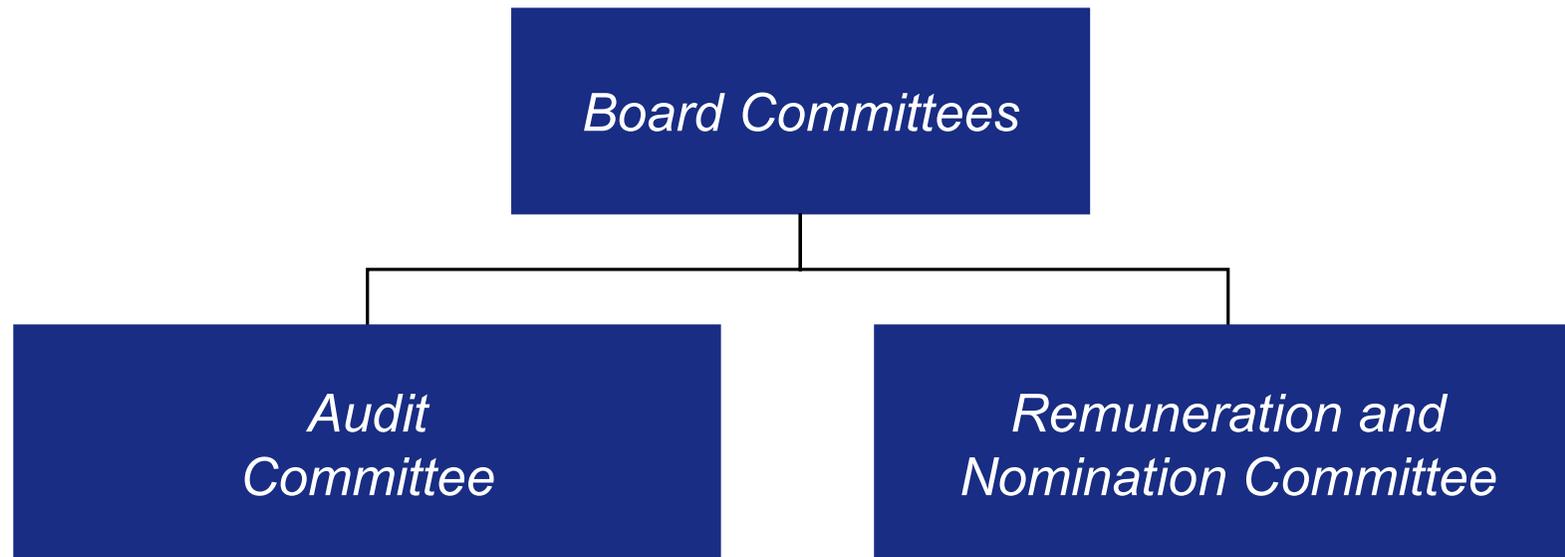
## » ***AGM date: June 2007***

## » ***FY 2006 IFRS statement: April 2, 2007***

## » ***Annual report : May 2007***

## » ***Chairman available for requested meetings with shareholders***

# Board activities - committees

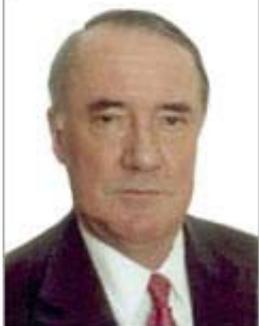


# Board activity – remuneration and nomination committee



» **Three members, including two independent Non-Executive Directors**

- *Rolf Stomberg, Chairman of the Committee, Senior Independent Director*
- *Chris Clark, Chairman of the Board*
- *Alexey Mordashov, CEO*



» **Performance evaluation**

- *Formal appraisal of and by Directors*

» **Executive remuneration closely aligned to performance**

- *Basic salary*
- *Short term bonus scheme*
- *Aligned to individual performance, company's profitability and company's performance in comparison with key competitors*
- *Long term incentive plan*
- *Aligned to market capitalization of the company*



# Board activity – audit committee



- » ***Three members, all independent Non-Executive Directors***
  - *Martin Angle, Chairman of the Committee, Independent Director*
  - *Ronald Freeman, Independent Director*
  - *Dr. Peter Kraljic, Independent Director*
  
- » ***Audit committee approval for IFRS reporting***
  
- » ***Internal audit department reports to the Audit committee***

# Disciplined approach to M&A to be guaranteed by the Board

## » *Disciplined approach to M&A strategy – the Board's priority*

- *All acquisitions above US\$500m*
- *and any transaction above 10% of balance sheet assets must be approved*

*by 2/3 of the Board's vote*

# UK Combined Code on Corporate Governance checklist

## Directors

*Effective Board*



*Split roles of Chairman and CEO*



*Board balance and independence*



*Formal procedure for Board appointments*



*Induction of new directors and information flows*



*Annual Board performance evaluation procedure*



*Regular Board re-election procedure*



## Remuneration

*Performance linked pay for directors*



*Remuneration committee*



# UK Combined Code on Corporate Governance checklist

## **Accountability and Audit**

*Board to approve financial reporting*



*Sound system of internal controls*



*Audit committee*



## **Relations with Shareholders**

*Board responsibility available for contact*



*AGM used to communicate with investors*



***SeverStal is committed to complying with international corporate governance standards and has put in place a policy of maximum transparency and best market practices***

# *Your questions*