



*Q2 and H1 2009 Financial Results Presentation*

*7 September 2009*

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*Summary*

### Q2 Highlights

- After a very challenging Q1, the benefits of cost savings initiatives across the Group and improving global market conditions led to improved Group performance in Q2
- Revenue up slightly to \$2,852 million in Q2 (Q1 09: \$2,796 million)
- Recovery in EBITDA\* to negative \$5 million in Q2 (Q1 09: negative \$156 million), driven by on-going cost saving initiatives and better performances at Severstal Russian Steel and Severstal Resources
- Net loss\*\* was \$290 million, including a \$167 million pre-tax foreign exchange gain (Q1 09: net loss of \$654 million, including \$381 million pre-tax foreign exchange loss)
- No dividend proposed for Q2 2009 and no FY 2009 dividend payments anticipated

### H1 Highlights

- Average prices and volumes for rolled products reduced by 29.6% and 25.7%, respectively, in H1 2009 versus H1 2008; very different market conditions reflected in year-on-year comparisons
- Revenue of \$5,648 million (H1 08: \$10,719 million), as a result of lower sales volumes and a drop in average prices
- Negative EBITDA of \$161 million (H1 08: \$2,807 million)
- Net loss of \$944 million, including a \$214 million pre-tax foreign exchange loss (H1 08: net profit \$1,967 million, including an \$8 million pre-tax foreign exchange gain)

### Cash

- Cash, short-term deposits and committed unused credit lines of \$3,361 million as at 30 June 2009 exceed short-term debt obligations
- Cash, cash equivalents and short-term bank deposits of \$2,579 million as at 30 June 2009
- Operating cash flow includes \$1,036 million of working capital release; additional working capital release expected in Q3

\* EBITDA represents profit/(loss) from operations plus depreciation and amortisation adjusted for gain/(loss) on disposals of property plant and equipment.

\*\* Net profit/(loss) attributable to shareholders

Q109 and H108 amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from majority shareholder

## *Operational Restructuring and Cost Saving*

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- Acceleration of restructuring in North American operations
  - Management is currently finalising strategy for North America
  - Warren and Wheeling facilities in the US are currently idle, leading to substantial labour cost savings
  - Release of working capital from raw material stocks at Warren and Wheeling facilities
- Continued implementation of cost saving initiatives across the Group
  - Success of cost saving initiatives at Severstal Russian Steel and Severstal Resources contributed to more than doubling of Q2 EBITDA in these divisions; further improvements in cost savings expected in H2
  - Cost of billets production at European operations (Piombino) reduced by 4.4% quarter on quarter in Q2
- Capital expenditure in line with \$1.0 billion guidance for FY2009
  - Q2 capital expenditure of \$212 million; H1 capital expenditure of \$477 million

## Key Financials

\$ mln unless otherwise stated	Q2 2009	Q1 2009****	H1 2009	H1 2008****
Revenue	2,852	2,796	5,648	10,719
(Loss)/Profit from Operations	(228)	(395)	(623)	2,325
Operating Margin, %	(8.0%)	(14.1%)	(11.0%)	21.7%
EBITDA*	(5)	(156)	(161)	2,807
EBITDA Margin, %	(0.2%)	(5.6%)	(2.9%)	26.2%
Net (Loss)/Profit**	(290)	(654)	(944)	1,967
Net Margin, %	( 10.2%)	(23.4%)	(16.7%)	18.4%
EPS, \$	(0.29)	(0.65)	(0.94)	1.95
DPS***, \$	0.00	0.00	0.00	0.97

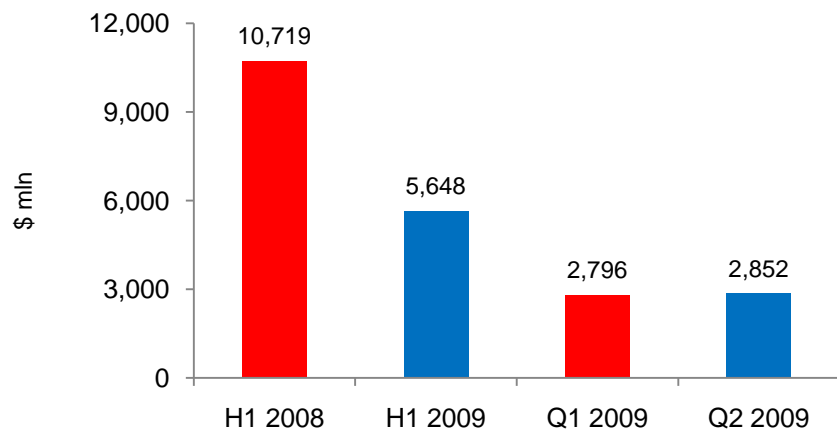
\* EBITDA represents profit/(loss) from operations plus depreciation and amortisation adjusted for gain/(loss) on disposals of property plant and equipment.

\*\* Net profit/(loss) attributable to shareholders

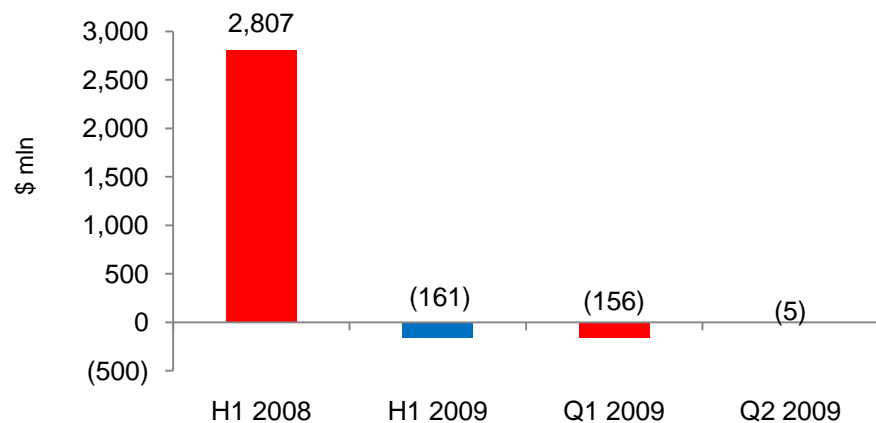
\*\*\*Dividends announced on the basis of respective period results, translated at the exchange rate as of the date of recommendation by the Board of Directors.

\*\*\*\* These amounts reflect adjustments made in connection with completion of purchase price allocation and acquisitions from majority shareholder.

### Revenue



### EBITDA



- Revenues up 2.0% q-o-q
  - Q2 marked a turning point for steel market
  - Improving trends in both demand and pricing are encouraging in Q3
  - Sales volumes growing in Q3 in all divisions
- Operational restructuring to cut cash costs and improve profitability in all divisions
  - Reduction of costs in Severstal Russian Steel and Severstal Resources
  - Warren and Wheeling are currently idle
  - 16.4% decrease in H1 G&A y-o-y and 14.1% q-o-q in Q2
- Strong growth in EBITDA in Severstal Russian Steel and Severstal Resources
  - Cost savings yielded growth in profitability
  - Higher utilisation enabled improvements in costs

*Divisional Review*

## Divisional Results

### Revenue

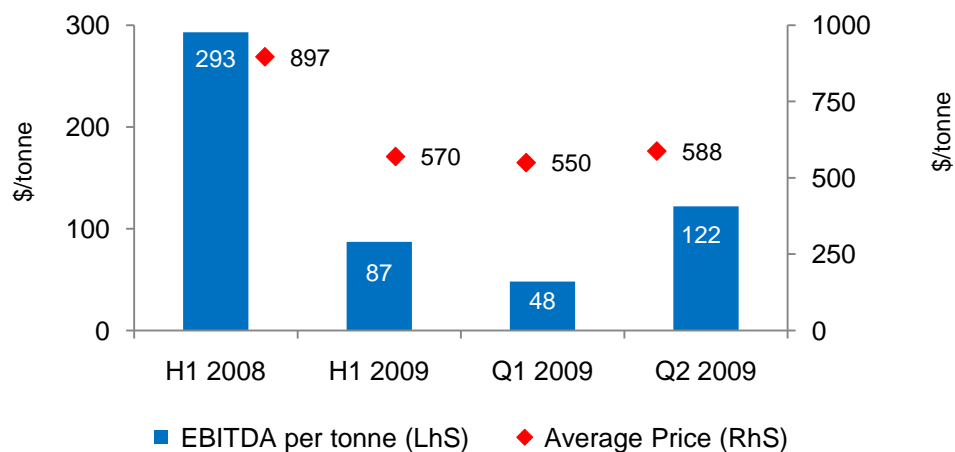
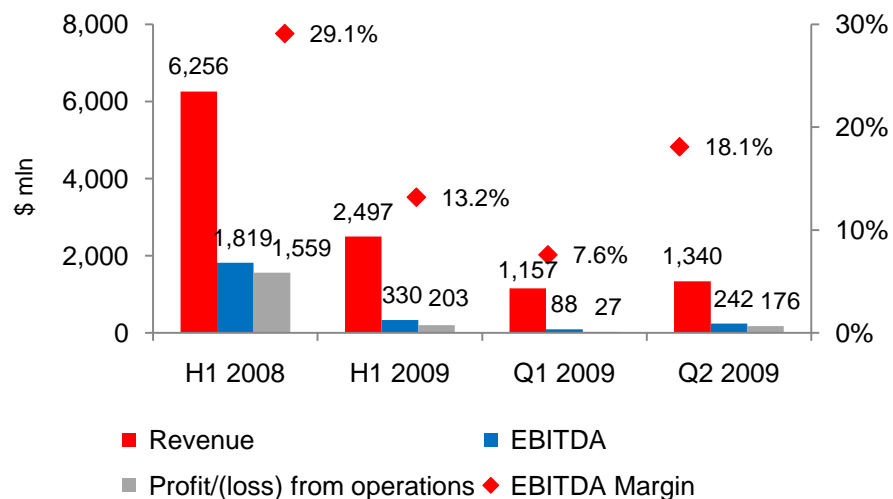
\$ mln	Q2 2009	Q1 2009	H1 2009	H1 2008
Severstal Resources	415	365	780	1,309
Severstal Russian Steel	1,340	1,157	2,497	6,256
North America	912	972	1,884	1,654
European Operations (Lucchini)	386	455	841	2,281
Intersegment Adjustments	(201)	(153)	(354)	(781)
Total	2,852	2,796	5,648	10,719

### EBITDA

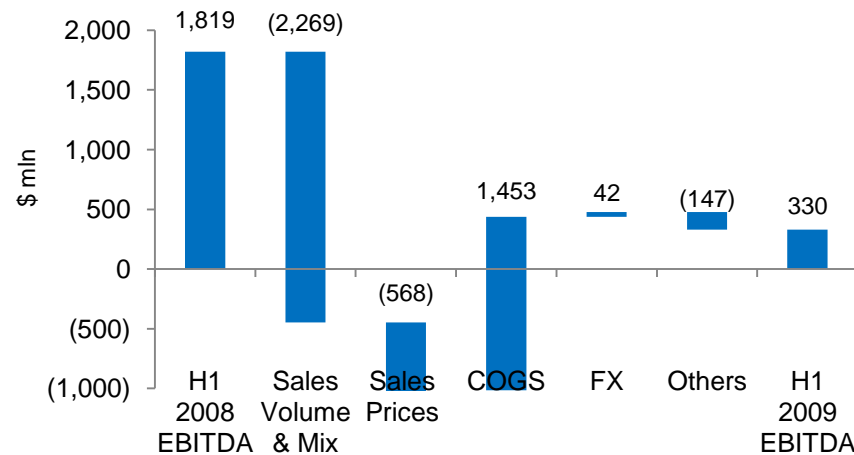
\$ mln	Q2 2009	Q1 2009	H1 2009	H1 2008
Severstal Resources	86	41	127	510
Severstal Russian Steel	242	88	330	1,819
North America	(236)	(243)	(479)	228
European Operations (Lucchini)	(86)	(43)	(129)	331
Intersegment Adjustments	(11)	1	(10)	(81)
Total	(5)	(156)	(161)	2,807

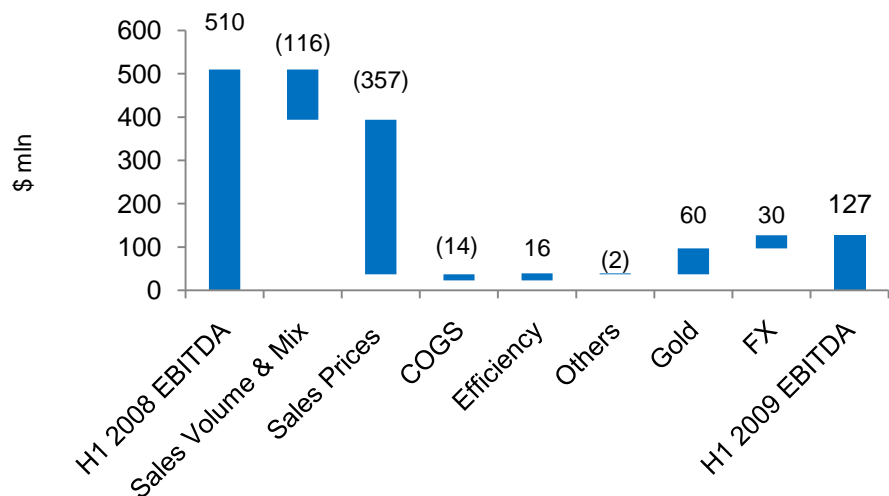
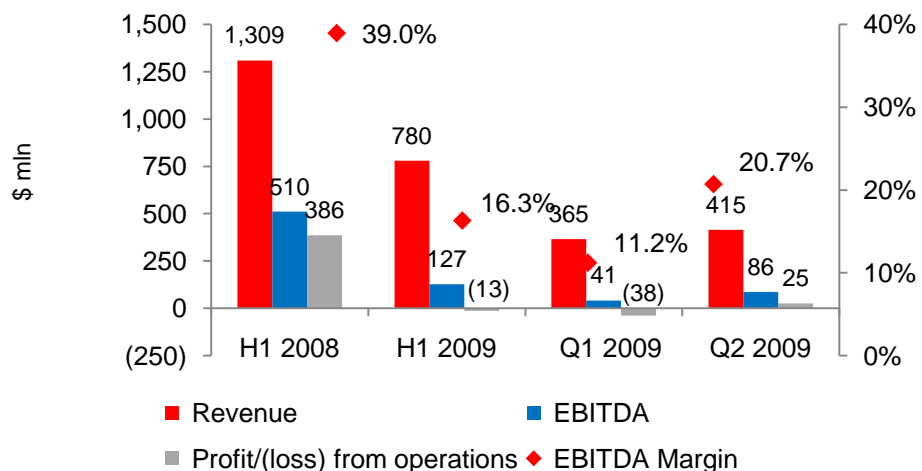
Source: Company

# Severstal Russian Steel



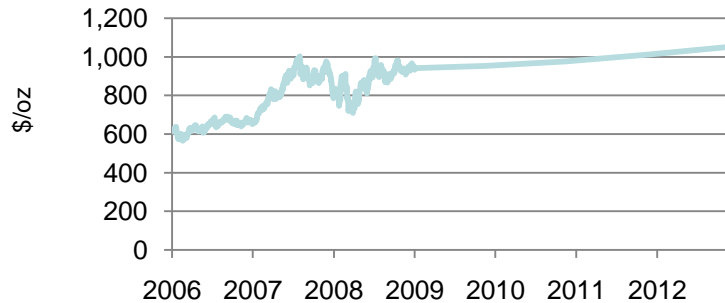
- In Q2 compared to Q1 2009:
  - Revenue up 15.8%
  - Sales volume up 8.5%
  - Converter slab production cost down 8.7%
- Cost control measures in Q2 supported improvement in profitability
  - EBITDA margin up to 18.1% in Q2 (Q1 09: 7.6%)
  - EBITDA up 175.0% to \$242 million (Q1 09: \$88 million)
- Share of export sales increased from 31.5% in H1 2008 to 48.9% in H1 2009 y-o-y
- On-going cost saving plans expected to deliver further benefits





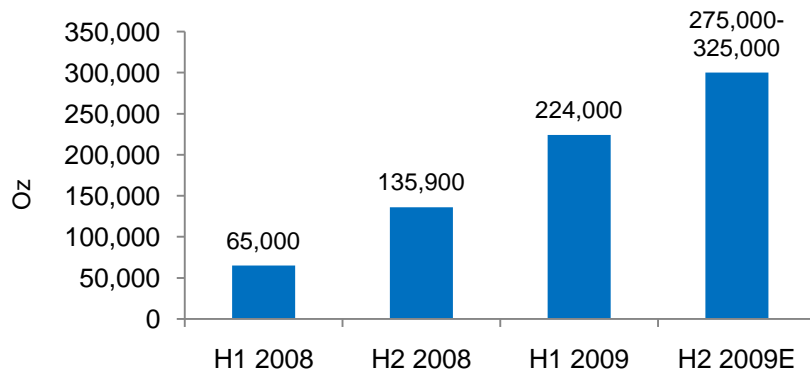
- In Q2 EBITDA increased by 109.8% to \$86 million (Q1 09: \$41 million)
  - EBITDA margin of 20.7% in Q2 (Q1 09: 11.2%)
- In Q2 versus Q1:
  - Revenue up 13.7%
  - Coking coal concentrate production up 25.7%
  - Iron ore production up 32.8%
- Decrease in cash costs in Q2 versus Q1 due to:
  - Higher utilisation as demand for raw materials strengthened
  - Cost cutting measures across the division
- Vorkutaugol: 8.4% q-o-q increase in coal price in Q2
- Gold business contributed \$60 million to H1 EBITDA increment:
  - Management focused on increasing production

## Spot prices and forward curve



Source: Company

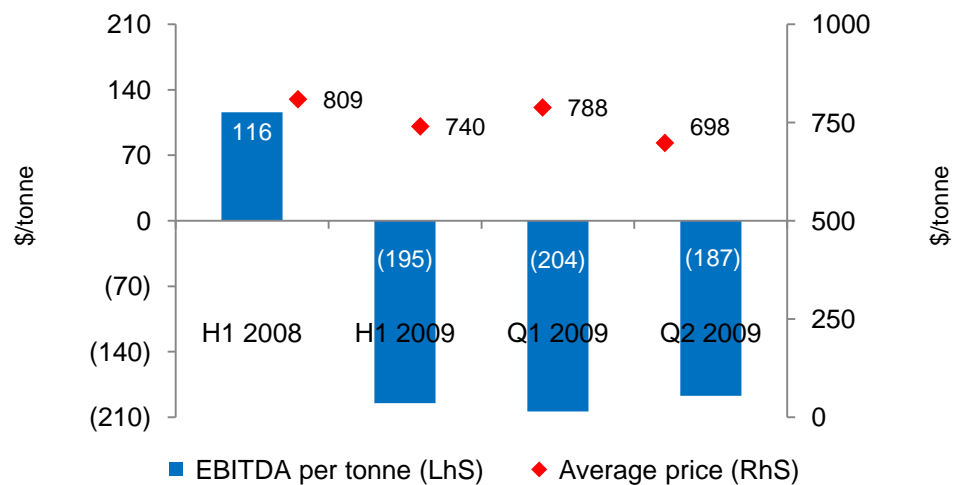
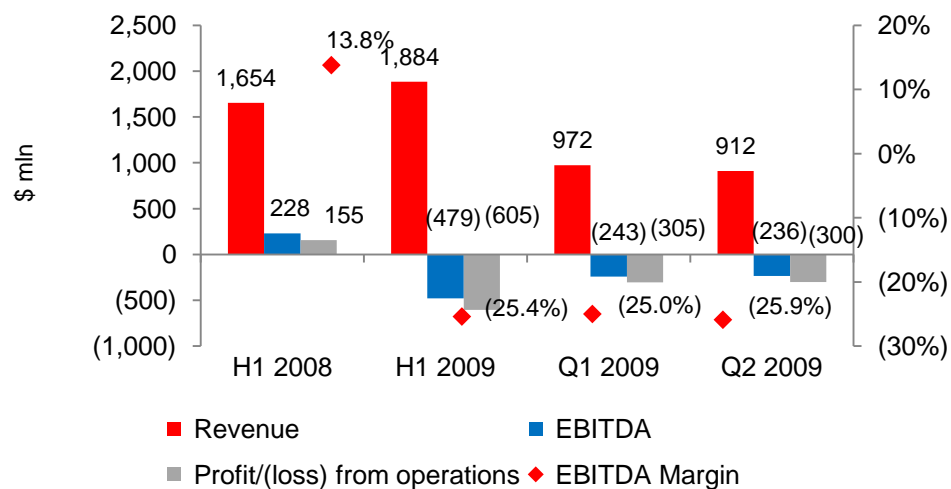
## Actual and targeted production



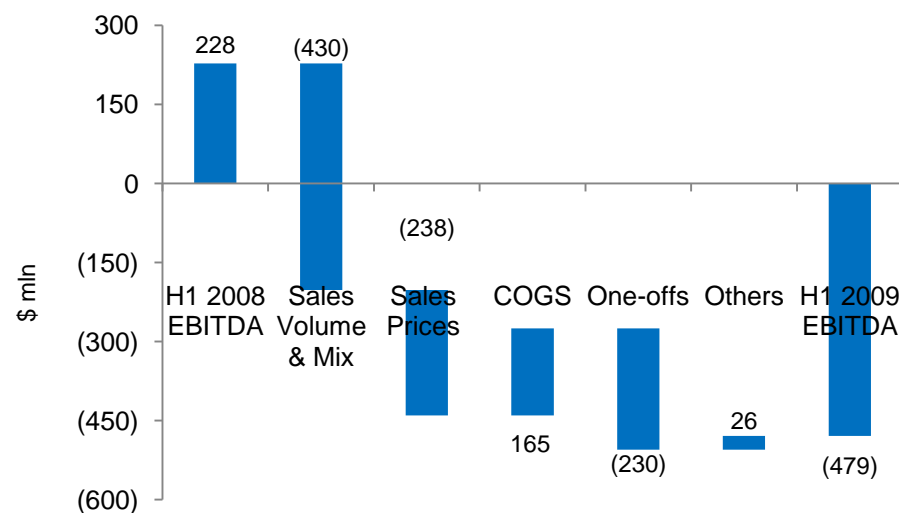
Source: Company

- Severstal's gold business today:
  - Russia's 2nd largest gold producer
  - H1 2009 production of 224 kOz versus 65 kOz in H1 2008
  - On track to produce 500-550 kOz in 2009
  - Attractive cash costs of about \$500/Oz
- Benefits for Severstal investors:
  - Successful integration of businesses acquired in the last two years
  - A counter-cyclical segment given attractive gold prices and outlook
  - \$95 mil EBITDA and 44% EBITDA margin in H1 2009
  - Detailed assessment of reserves/resources under JORC methodology just started and results to be reported in 2010
  - Leveraging Severstal Resources mining expertise to debottleneck, carry out additional exploration and invest in previously cash-constrained operations

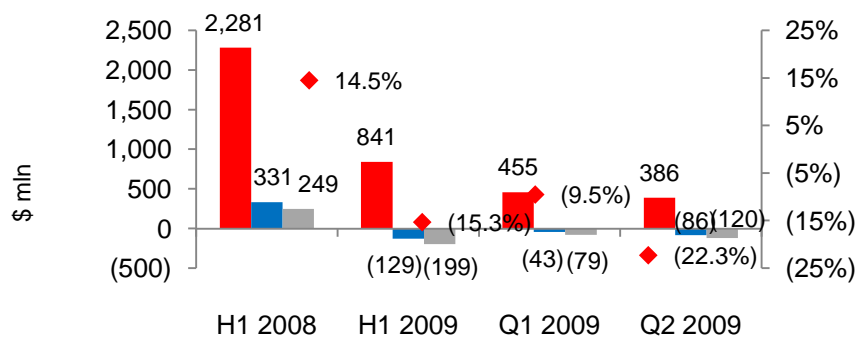
## Severstal International: North America



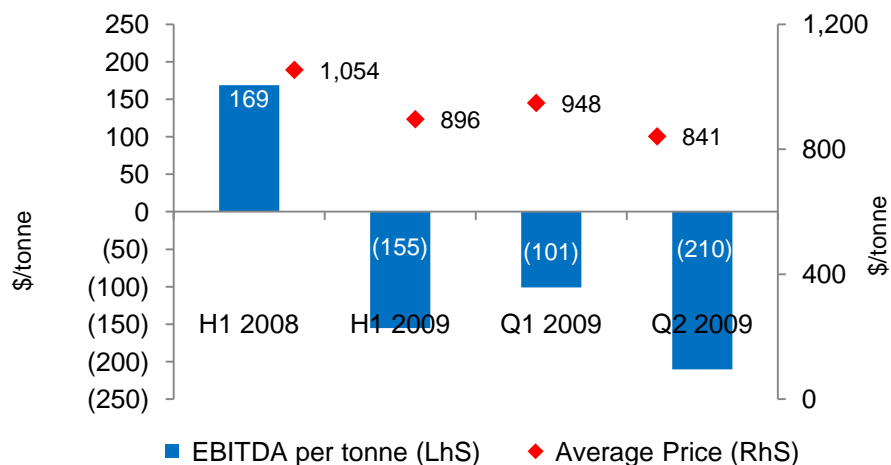
- Group management is currently finalising the North American strategy
- Our goal is to ensure our US business is both profitable and cash positive
- We are committed to operating in North America
- We will retain our most efficient units with a view to making them more flexible and efficient
- The net profit was impacted negatively by a reduction in the deferred tax asset in North America of \$169 million
- Columbus mill achieved an 8.3% reduction in q-o-q production costs of hot-rolled strip in Q2



# Severstal International: European Operations

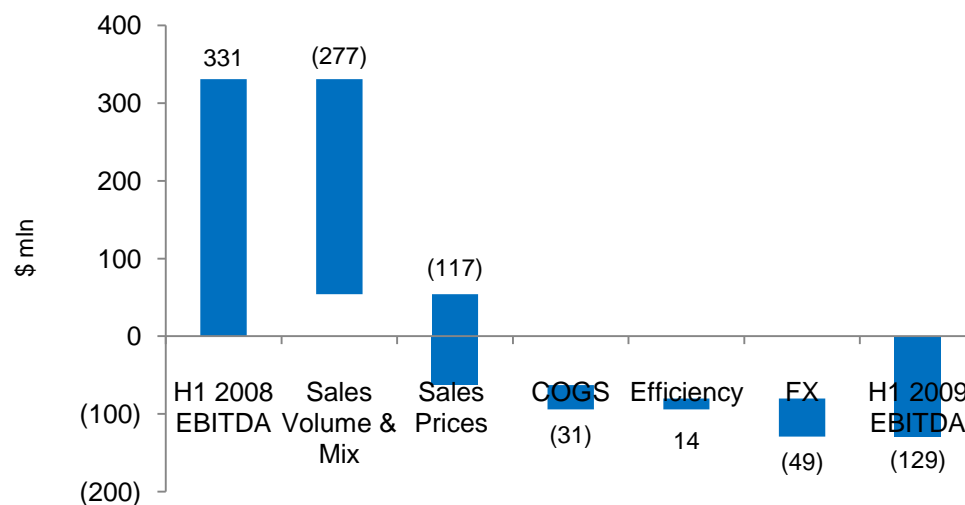


■ Revenue ■ EBITDA  
■ Profit/(loss) from operations ◆ EBITDA Margin



■ EBITDA per tonne (LhS) ◆ Average Price (RhS)

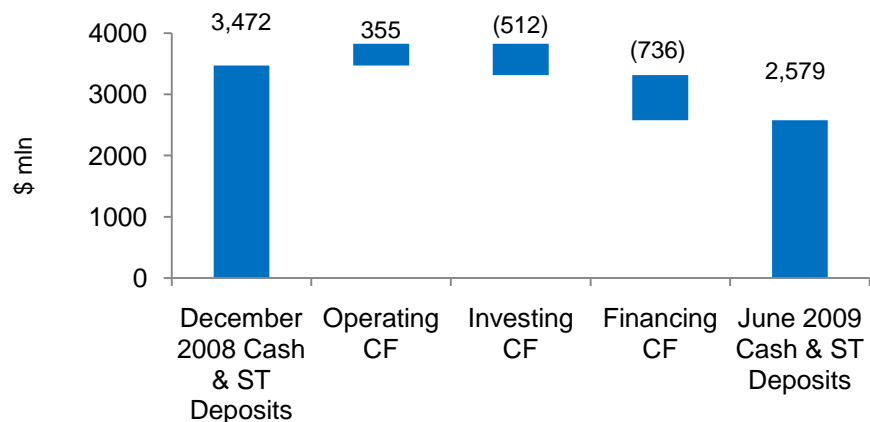
- Lucchini H1 EBITDA of negative \$129 million (H1 08: \$331 million) resulted from contraction in demand and de-stocking
- Q2 sales volumes and prices were lower than in Q1
- Market conditions started to improve at the beginning of July
- Cost of billet production at European operations (Piombino) reduced by 4.4% quarter on quarter in Q2
- Reductions in costs and SG&A are expected to positively affect EBITDA in H2



*Overview of Cash Flow and Statement of Financial Position*

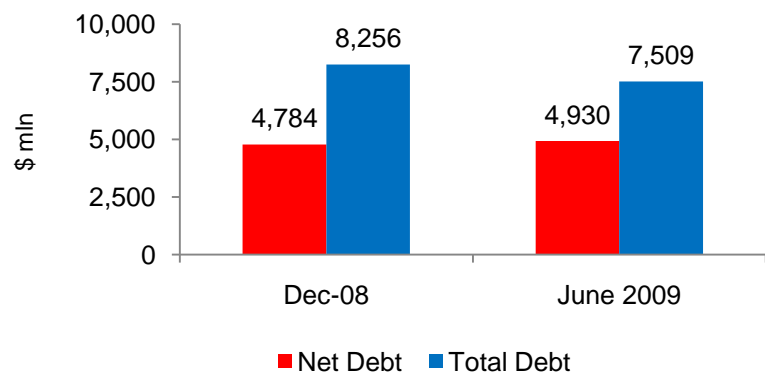
## Strong Cash Position and Financing Structure in Place

### Cash and Short-Term Deposits



Note: June 2009 cash includes \$332 million of short-term deposits

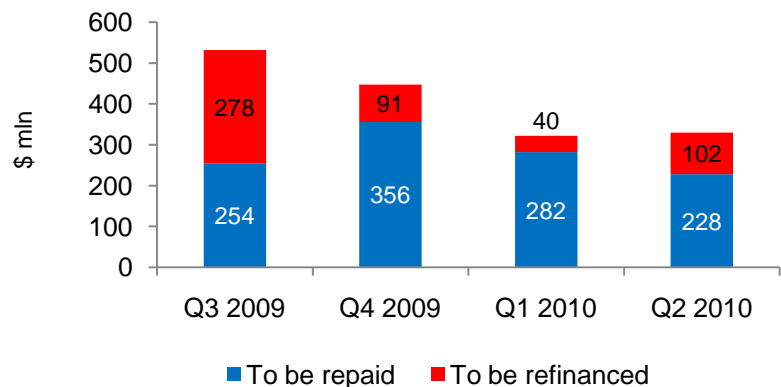
### Total and Net Debt



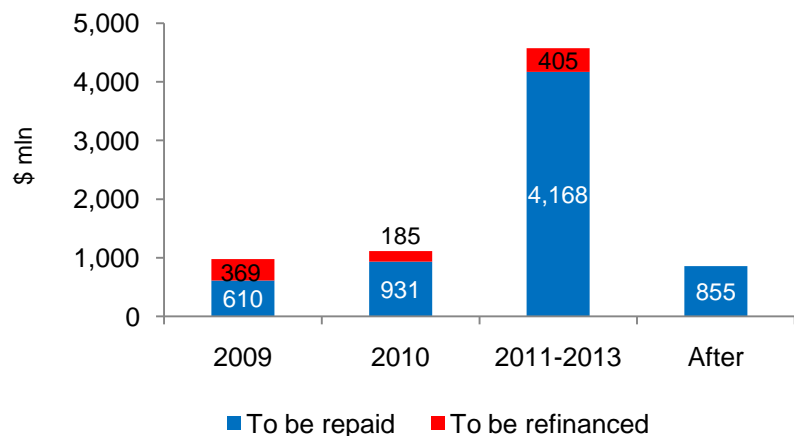
- Cash, short-term deposits and committed facilities exceed short-term debt obligations
- Operating cash flow in H1 includes \$1,036 million of net working capital release
- Committed unused credit lines of \$782 million as at June 30, 2009
- As at June 30, 2009 net debt represented 2.1x LTM EBITDA

## Debt Schedule

### Short-Term Debt Schedule\*



### Short-Term and Long-Term Debt Schedule\*



\* Excluding accrued interest and unamortised balance of transaction costs

Source: Company

- In Q3 Severstal will redeem \$254 million of various debt facilities
- Expiring credit facilities renewed in Q2 as planned
- Liquidity became more available in Q2 in the Russian market albeit at higher cost
- Proceeds from upcoming Ruble bond issue will be used to refinance the credit portfolio
- Principal Long-Term Borrowings
  - Eurobond 2013 \$1,250 million
  - Eurobond 2014 \$375 million
  - EBRD €600 million; amortising from December 2009 to 2017
  - PXF \$1,200 million amortising from 2010 to 2013

*Outlook*

## Outlook

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- We remain confident of the long-term prospects for the industry
- The re-stocking and stimulus plans announced by many national governments will support demand for the remainder of the year
- Operating environment is steadily improving with production volumes and prices increasing in Q3 across all divisions
  - Order visibility improved over the summer
  - Since July the steel market has demonstrated signs of improvement
- Price corrections are possible in the short-term but a return to growth is becoming more likely
  - The positive developments we have seen so far in Q3 remain fragile
- Further improvements in the global steel markets depend on the pace of economic recovery and production and pricing discipline in the industry
- Despite new iron ore settlements for China it continues to import substantial volumes of finished rolled products supporting increased utilisation in low-cost producing countries
  - Exports will remain an important source of strength for Severstal Russian Steel

## Conclusion

### Q2 Highlights

- After a very challenging Q1, the benefits of cost savings initiatives across the Group and improving global market conditions led to improved Group performance in Q2
- Revenue up slightly to \$2,852 million in Q2 (Q1 09: \$2,796 million)
- Recovery in EBITDA\* to negative \$5 million in Q2 (Q1 09: negative \$156 million), driven by on-going cost saving initiatives and better performances at Severstal Russian Steel and Severstal Resources
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*Appendices*

## Statement of Financial Position: Summary

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\$ mln	As at December 31, 2008	As at June 30, 2009
Current Assets	10,692	8,018
Non-current Assets	11,791	11,511
Total Assets	22,483	19,529
Current Liabilities	4,767	3,699
Non-current Liabilities	8,163	7,591
Total Equity	9,553	8,239
Total Equity and Liabilities	22,483	19,529

## Summary of Income Statement

\$ mln unless otherwise stated	H1 2009	H1 2008	Change, y-o-y
Sales	5,648	10,719	(47.3%)
Cost of Sales	(5,419)	(7,474)	(27.5%)
(Loss)/Profit from Operations	(623)	2,325	(126.8%)
Operating Margin, %	(11.0%)	21.7%	
Net (Loss)/Profit	(944)	1,967	(148.0%)
Net Margin, %	(16.7%)	18.4%	
EPS, \$	(0.94)	1.95	(148.2%)

\$ mln unless otherwise stated	Q2 2009	Q1 2009	Change, q-o-q
Sales	2,852	2,796	2.0%
Cost of Sales	(2,660)	(2,759)	(3.6%)
Loss from Operations	(228)	(395)	(42.3%)
Operating Margin, %	(8.0%)	(14.1%)	
Net Loss	(290)	(654)	(55.7%)
Net Margin, %	(10.2%)	(23.4%)	
EPS, \$	(0.29)	(0.65)	(55.4%)

## Summary of Cash Flow Statement

\$ mln	H1 2009	H1 2008
(Loss)/Profit Before Financing and Taxation	(689)	2,788
Cash Generated from Operations	672	2,090
Interest Paid	(292)	(147)
Income Tax Paid	(25)	(341)
Net Cash from Operating Activities	355	1,602
Cash from Investing Activities	(26)	(1,178)
Additions to PP&E and IA	(477)	(920)
Cash from Financing Activities	(728)	932
Effect of Exchange Rates on Cash and Cash Equivalents	(8)	95
Net (Decrease)/Increase in Cash and Cash Equivalents	(407)	1,451
Cash & Cash Equivalents at Beginning of the Period	2,654	1,623
Cash & Cash Equivalents at End of the Period	2,247	3,074