

9 March 2010

Severstal well placed for recovery in 2010

Financial Results for the three months and twelve months ended 31 December 2009 (\$ million unless otherwise stated)

	Q4 2009	Q3 2009	2009	2008 ³
Revenue	3,919	3,487	13,054	22,393
Profit/(loss) from operations	354	125	(145)	4,216
EBITDA¹	630	373	844	5,358
Net (loss)/ profit ²	(162)	71	(1,037)	2,029
EPS, \$	(0.16)	0.07	(1.03)	2.01

Notes: 1 EBITDA represents profit from operations plus depreciation and amortisation adjusted for gain/(loss) on disposals of property plant and equipment.

2 Net profit/(loss) attributable to shareholders.

3 These amounts reflect adjustments made in connection with the completion of purchase price allocations.

OAO Severstal (LSE: SVST; RTS: CHMF), one of the world's leading integrated steel and mining companies, with key assets in Russia, the US and Europe, today reports results for the three months and 12 months ended 31 December 2009.

Q4 Highlights:

- Further price increases across all markets, improvements in demand for value-added products, and the benefits of restructuring and cost reduction initiatives resulted in improved EBITDA and strong cash flow
- Revenue up 12.4% to \$3,919 million (Q3 09: \$3,487 million)
- EBITDA increased by 68.9% to \$630 million (Q3 09: \$373 million), primarily driven by strong performance at Severstal Russian Steel and Severstal Resources
- Net loss of \$162 million (Q3 09: net profit \$71 million)
- Strong free cash flow of \$519 million (Q3 09: \$279 million) led to \$449 million reduction in net debt to \$4,278 million as at 31 December 2009
- Continued strong performance from Russian operations: Russian Steel EBITDA margin at 28.4% with capacity utilisation above 95% and further significant improvement in Resources EBITDA margin to 27.5% with production volumes back to pre-downturn levels
- Continued improvements in underlying performance of North American and European operations

FY2009 Highlights:

- Revenue of \$13,054 million (FY2008: \$22,393 million), as a result of very difficult market conditions, particularly in the first half of 2009, which led to lower sales volumes and average prices
- EBITDA of \$844 million (FY 08: EBITDA of \$5,358 million)
- Net loss of \$1,037 million (FY 08: net profit of \$2,029 million)

Funding position remains robust:

- Cash, cash equivalents and short-term bank deposits of \$2,949 million as at 31 December 2009
- 2009 operating cash flow of \$1,611 million includes \$1,722 million of working capital release; \$244 million of working capital release in Q4
- Strong free cash flow position enabled \$449 million reduction in net debt in Q4 to \$4,278 million as at 31 December 2009 (as at 30 September 2009: \$4,727 million)
- Successfully strengthened balance sheet by diversifying sources of debt funding and lengthening maturity profile. Further progress in 2010 to date through issue of a RUR15 billion bond and issue of \$525 million of senior notes by Severstal Columbus mill completely refinancing this business

On-going management initiatives delivering results

- Improved EBITDA margin of 16.1% for Q4 (Q3 09: 10.7%) due to cost saving initiatives and higher utilisation rates across the Company
- Focus on cash and capital expenditure discipline: \$1 billion of investments, in line with full year guidance
- North America: Improvement in underlying EBITDA in Q4 as a result of management initiatives to reduce costs; underlying loss before restructuring charges reduced to \$45 million (Q3: \$78 million)
 - 12% growth in production of galvanised products in Q4 due to the restart of finishing operations at Wheeling in December
 - On-going cost saving measures expected to deliver further improvements in 2010
 - Re-opening of steel making and hot-rolled facilities at Warren planned for the end of Q1 2010; this will increase capacity utilisation and is expected to improve profitability
- Capital expenditure programme of \$1.4 billion for 2010 reflects increased confidence in market outlook

Alexey Mordashov, Chief Executive of OAO Severstal, said: "2009 was a difficult year for the global steel industry but the decisive actions we took during the year leave the Company well positioned for 2010. Solid economic growth in emerging markets and a gradual recovery of demand in mature markets have improved the outlook for 2010. Furthermore, growing demand from China for raw materials has already led to higher spot prices for iron ore and coking coal in 2010, a trend we believe will be sustained during the year.

In this trading environment, our flexible cost base, vertically integrated model and solid financial position provide us with additional competitive advantage to benefit from improving steel markets and invest in growth and an enhanced product mix. We look forward to 2010 with confidence.”

Chief Executive’s Review of the three and twelve months ended 31 December 2009

Company revenue was \$13,054 million for 2009 (FY 08: \$22,393 million). EBITDA was \$844 million (FY 08: \$5,358 million), producing an EBITDA margin of 6.5% (FY 08: 23.9%).

The Company’s performance improved again in Q4 as a more favourable trading environment and cost-cutting measures had a positive impact on the operational performance of all divisions. Against a background of stronger pricing, crude steel production increased by 2.3% quarter-on-quarter leading to higher capacity utilisation, especially in our European operations. The production of coking coal concentrate and iron ore products increased by 40.6% and 3.2%, respectively, quarter-on-quarter, as a result of higher demand. The main contributor to the increase in coking coal production was PBS Coals where production increased threefold quarter-on-quarter.

A significant improvement in EBITDA to \$630 million in Q4 (Q3 09: \$373 million) was achieved due to strong performance at Severstal Russian Steel and Severstal Resources. Higher sales volumes and prices drove this result. In the International division, our North American operation improved its underlying performance and European operations were profitable at the EBITDA level.

The effect of the seasonal correction in Russian and North American volumes in Q4 09 was offset by increased prices and cost cutting actions. Our European operations showed impressive growth in sales volumes in long products including rails.

Additional benefit was derived from reductions in general and administrative expenses. These expenses were down 28.4% year-on-year for 2009.

The Company benefited from its vertical integration through Severstal Resources which provides more than 90% of coking coal needs for Russian Steel and has excess volumes of pellets which it sells to third party customers. Increased sales volumes at PBS Coals, which sells a large portion of its production to customers outside the Company, provided an important economic hedge for our North American steel operations. Vertical integration into raw materials remains one of the key elements of our business model and an area of focus for our long-term strategy.

Capital expenditure was \$1.0 billion in 2009, in line with our target for the year. In 2010, we will increase our capital expenditure programme to \$1.4 billion, reflecting our improved confidence in the market outlook. Approximately \$685 million will be spent on key projects in the Russian Steel Division, \$356 million in the Resources Division and \$413 million in North America. These investments will support the Company’s organic growth and enhance our competitive position. They will be focused on enhancing our vertically

integrated model and mini-mill capacity to target growth in the Russian infrastructure and construction markets and on improving our competitive position in higher value added markets in the US.

Severstal has a strong cash position and committed unused credit lines in place to meet its short-term debt requirements. As at 31 December 2009, Severstal had \$2,949 million of cash, cash equivalents and short-term bank deposits (as at 30 September 2009: \$3,161 million). Due to a reduction in inventories and better cash management, the Company released a further \$244 million of cash from working capital in Q4. This brings the total reduction in working capital for 2009 to \$1.7 billion, which exceeds our target of \$1.2 billion for the year.

As a result of effective working capital management, we continue to generate healthy levels of cash. Free cash flow was \$519 million for Q4, a significant increase on Q3 (Q3 09: \$279 million). Strong free cash flow led to a \$449 million reduction in net debt in Q4 to \$4,278 million as at 31 December 2009 (as at 30 September 2009: \$4,727 million) with short term debt of \$1,478 million.

To date in 2010, we have continued to diversify and optimise our financing through the issue of a further RUR15 billion of 3-year corporate bonds in February. The offering was c.3.7 times oversubscribed. A portion of the proceeds will be used to pay down debt. We were also pleased to announce in February the placing of \$525 million of 8-year senior notes issued by the Severstal Columbus mill in the US. Funds raised have been used to refinance existing bank loans at Columbus.

Severstal Russian Steel

This division delivered a very strong performance in Q4 with revenue and EBITDA improving significantly quarter-on-quarter. Revenue increased by 13.1% in Q4 to \$1,954 million (Q3 09: \$1,728 million). Average sales prices were 16.3% higher in Q4, while sales volumes were 1.9% lower compared to Q3. Q4 EBITDA increased by 27.9% to \$555 million (Q3 09: \$434 million), producing an EBITDA margin of 28.4% (Q3 09: 25.1%). We have continued to implement our cost management initiatives successfully, which improved the year on year cost per unit of slab production significantly (including depreciation and amortisation). In 2009, the cost per unit of slab production (including depreciation and amortisation) decreased by 42.3% year on year to \$269 (FY 08: \$466) due to cost cutting initiatives and Rouble depreciation. The quarter-on-quarter cost per unit of slab production (including depreciation and amortisation) in Q4 was affected by higher raw material prices. As a result, it was \$296 versus \$240 in Q3.

Severstal Russian Steel is a world-class, low-cost producer of steel which delivered strong results throughout a difficult 2009. Revenue for the year was \$6,179 million (FY 08: \$12,064 million) as a result of lower average prices and sales volumes, particularly in H1 09. Export sale volumes increased to 53.1% of total sales in 2009 (2008: 39.4% of total sales). EBITDA was \$1,319 million in 2009 (FY 08: \$3,675 million) with an EBITDA margin of 21.3% (FY 08: 30.5%).

As part of our capital expenditure programme in 2010, we plan to start construction of a mini-mill in Balakovo (Saratov region). By 2013 this mini-mill is expected to produce 1 million tonnes of long steel per year and will support organic growth in the Russian Steel division. Downstream expansion in Russia, including investments in production of

fabricated box sections at Sheksna and in the second polymer coating line at Cherepovets, is aimed at increasing the share of customised products in our portfolio mix.

Severstal Resources

Q4 revenue grew 32.1% to \$621 million (Q3 09: \$470 million) as a result of increased sales volumes and very strong price performance from October to December. This positive change primarily reflects an improvement in demand in the Russian and North American markets. Q4 EBITDA increased by 81.9% to \$171 million (Q3 09: \$94 million) and the EBITDA margin was 27.5% (Q3 09: 20.0%). Although the year on year cost per unit of production was down across our Russian resource operations, the Q4 quarter-on-quarter cost increased as a result of higher input costs, such as electricity. Cost per unit of production was up 12.1% at Karelsky Okatysh, 28.0% at Olkon and 1.4% at Vorkutaugol. PBS Coals reduced per unit cost of production of coking coal concentrate by 1.1%.

In Q4, the coking coal market in Russia remained tight resulting in price increases of 34.0% quarter-on-quarter. Pellet prices were 16.8% higher in Q4 than in Q3. In Q4, quarter-on-quarter production of coking coal concentrate increased by 40.6%. Following stronger demand both from Severstal North America and third party customers, PBS Coals produced 607k tonnes of coking coal concentrate compared to 185k tonnes in Q3.

Revenue in 2009 was \$1,871 million (FY 08: \$2,453 million) as a result of lower year on year sales volumes and prices. EBITDA was \$393 million (FY 08: \$859 million) and the EBITDA margin was 21.0% (FY 08: 35.0%). Cost cutting measures and a weaker Rouble in 2009 resulted in reductions in the cost per unit of production at Vorkutaugol (down 30.2%), Karelsky Okatysh (down 26.5%), and Olkon (down 23.7%) compared to previous year. As the majority of our sales are made in the spot markets, we expect to be able to take advantage of rising commodity prices.

Our gold business has grown rapidly over the last couple of years and is making a significant contribution to Severstal's performance. In 2009, it contributed \$236 million to the Resource Division's EBITDA as a result of favourable gold prices and organic growth in production units. The cash cost per ounce of production fell by 7.3% to an average of \$434 in 2009 and 534 Koz of gold were produced during the year (FY 08: 193 Koz), making our gold business the second largest Russian gold producer. Our focus for this business is to further improve operational and financial efficiencies.

Severstal International

US

In our North American operations, Q4 revenue was \$1,059 million (Q3 09: \$1,081 million). Production of galvanised products grew by 12% in Q4 due to the re-start of finishing operations at Wheeling in December. With the exception of galvanised and metallic coated sheet, sales volumes were lower quarter-on-quarter in Q4 due to the seasonal drop in demand in November and December. Lower sales volumes were offset by a 13.9% quarter-on-quarter increase in average steel sales prices. Underlying EBITDA (before restructuring expenses) in our North American operations was negative \$45 million in Q4 (Q3: negative \$78 million). The re-start of finishing operations at Wheeling and cost reductions at operating mills improved the financial result, notwithstanding lower sales volumes during Q4. Reported EBITDA for the North American operations in Q4 was

negative \$97 million (Q3 09: negative \$78 million), including \$52 million of restructuring expenses at Wheeling and Warren.

In Q4, the quarter-on-quarter cost per unit of production of hot-rolled band was, respectively, 6.5% and 5.1% higher at Dearborn and Columbus. At Sparrows Point the quarter-on-quarter cost per unit of production went down by 2.1% due to cost cutting initiatives.

Revenue was \$4,023 million in 2009 (FY 08: \$5,319 million) as a result of lower volumes and prices. This division reported negative EBITDA of \$654 million for 2009 (FY 08: positive \$377 million).

As part of our operational plans for 2010, we plan to re-start the steel making and hot-rolled facilities at Warren at the end of Q1. This will increase capacity utilisation and improve the profitability of our North American operations. On-going cost saving measures, including labour and production efficiencies, are expected to deliver stronger results in 2010.

Over the longer term, we expect the cost position of our North American business to improve as a result of further investment in operational efficiencies. In 2010, \$413 million will be invested in projects, including the replacement of the tandem mill at Dearborn. This will substantially improve processing costs at Dearborn's cold rolling facilities and pickling lines by 2013. We will also begin Phase II at Columbus and by its completion, expected to be in 2012, this project will add a further 1.5 million tonnes of mini mill capacity per year to our North American operations.

We believe that the North American market will continue to improve in 2010 and that we will achieve better capacity utilisation. As such, we continue to focus on implementation of our restructuring plan, delivering further cost reductions and tightly managing capital expenditure.

Europe

The European market strengthened during Q4 and both revenue and EBITDA increased quarter-on-quarter. The progress made in the European operation was mainly driven by the 45% increase in production volumes, although prices improved as well. EBITDA was positive \$9 million in Q4 (Q3 09: negative \$83 million). Lucchini's cost per unit of billet production was 10.1% lower quarter-on-quarter in Q4 due to cost saving initiatives.

For 2009, Lucchini's revenue was \$1,757 million (FY 08: \$3,989 million) and EBITDA was negative \$203 million (FY 08: positive \$430 million). Sales volumes in 2009 were almost half of those in 2008, with a significant negative impact on EBITDA. EBITDA was also affected by a less favourable product mix effect, as well as higher per unit costs, which were only partially off-set by cost cutting initiatives.

Given our strategic focus on vertically integrated steel operations, we are currently exploring all options to ensure the most appropriate structure for the long-term development of Lucchini. On March 4, 2010, Severstal announced that it has acquired the minority stake in Lucchini SpA (20.2%) from the Lucchini family. Following the transaction Severstal now owns 100 percent of the Lucchini SpA. 100% ownership of this subsidiary

will provide Severstal with maximum flexibility in terms of developing strategic alternatives for the business going forward.

During Q4, we continued to work on the initiatives outlined in our Q3 results announcement with a view to bringing about a sustained improvement in the operational performance of the Lucchini business. Whilst we do not anticipate material changes in performance to result from these initiatives in the short-term, we are encouraged by improvements in performance delivered in Q4.

Financial Summary for the year ended 31 December 2009

Company **revenue** was \$13,054 million (FY 08: \$22,393 million), as a result of lower sales volumes and pricing. **Loss from operations** was \$145 million (FY 08: profit of \$4,216 million). Company **operating margin** was negative 1.1% (FY 08: positive 18.8%).

EBITDA was \$844 million (FY 08: \$5,358 million). **Net loss attributable to shareholders** was \$1,037 million, including a \$205 million pre-tax foreign exchange loss (FY 08: net profit of \$2,029 million, including a \$275 million pre-tax foreign exchange loss).

Net loss in Q4 2009 was \$162 million, including a \$47 million pre-tax foreign exchange loss and \$157 million deferred tax expense (Q3 09: net profit \$71 million, including a \$55 million pre-tax foreign exchange gain and \$52 million deferred tax income).

EPS was negative \$1.03 (FY 08: positive \$2.01).

Net cash from operating activities was \$1,611 million (FY 08: \$3,434 million) which was attributable to a significant decrease in profit before financing and taxation, partially offset by the release of \$1,722 million from working capital and a reduction in costs. **Net debt**, calculated as total indebtedness less cash and cash equivalents, less short-term bank deposits, decreased to \$4,278 million as at 31 December 2009 (as at 31 December 2008: \$4,794 million). Total indebtedness also reduced during the year to \$7,227 million as at 31 December 2009 (as at 31 December 2008: \$8,266 million). Cash, cash equivalents and short-term bank deposits were \$2,949 million as at 31 December 2009 (as at 31 December 2008: \$3,472 million).

Dividend

The Board of Severstal is not recommending payment of a dividend for Q4 2009. The Board will keep the resumption of dividends under review.

Outlook

In Russia, we expect further measured recovery in the oil and gas, and construction sectors. Automotive and machinery producers are expected to increase production rates and incremental demand from these sectors should also support an increase in sales in 2010. We expect export markets in Europe, the Middle East and Africa to continue to be an important source of sales for Russian Steel. Our customer base for these export sales is well diversified and we intend to use exports to increase utilisation of our Russian facilities to full capacity.

In North America, we believe the market will continue to improve and that we will achieve better capacity utilisation and benefit from the increased flexibility in our cost base that has resulted from restructuring. Overall, we anticipate moderate recovery in North American markets and believe there will be improvements in demand from the automotive and other steel consuming segments.

Solid economic growth in emerging markets and a gradual recovery of demand in mature markets have improved the outlook for 2010. Growing demand from China for coking coal and iron ore has already led to higher spot prices for these raw materials to date in 2010. We believe this trend will be sustained during the year, especially from Q2 onwards, giving Severstal strong competitive cost advantage through our vertically integrated business model. Combined with the benefits of the cost management and debt reduction initiatives implemented during 2009, we believe we are well positioned to benefit from improving steel markets in 2010 and invest in growth and an enhanced product mix.

For further information:

Severstal

Dmitry Druzhinin, Investor Relations
Olga Antonova, Public Relations
+7 495 926 7766

Hudson Sandler

Andrew Hayes/Jessica Rouleau/Maria Ignatova
+44 (0)20 7796 4133

A conference call for investors and sell side analysts will be held on Tuesday, 9 March 2009 at 5.30pm (Moscow), 2.30pm (London), 9.30am (US East Coast).

Dial-in details:

UK Standard & International: +44 (0) 1452 555 566
Russia Free call: 8108 002 097 2044
UK Free call: 0800 694 0257
USA Free call: 1 866 966 9439

Conference ID: 57205442

The call will be recorded and there will be a replay facility available as follows:

International Dial in: +44 (0) 1452 55 00 00
UK Free Call Dial In: 0800 953 1533
USA Free Call Dial In: 1866 247 4222

Replay Access Number: 57205442#

Full financial statements and further information on Severstal are available at www.severstal.com